

THE ANNUAL TESTIMONY OF THE SECRETARY  
OF THE TREASURY ON THE STATE OF THE  
INTERNATIONAL FINANCIAL SYSTEM,  
PARTS I AND II

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HEARINGS  
BEFORE THE  
COMMITTEE ON FINANCIAL SERVICES  
U.S. HOUSE OF REPRESENTATIVES  
ONE HUNDRED SIXTEENTH CONGRESS  
FIRST SESSION

APRIL 9 AND MAY 22, 2019

Printed for the use of the Committee on Financial Services

**Serial No. 116–17**



U.S. GOVERNMENT PUBLISHING OFFICE

37–448 PDF

WASHINGTON : 2020

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

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**Tuesday, April 9, 2019**

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

The committee met, pursuant to notice, at 2:04 p.m., in room 2128, Rayburn House Office Building, Hon. Maxine Waters [chairwoman of the committee] presiding.

Members present: Representatives Waters, Maloney, Velazquez, Sherman, Meeks, Clay, Scott, Green, Cleaver, Perlmutter, Himes, Foster, Beatty, Heck, Vargas, Gottheimer, Lawson, San Nicolas, Tlaib, Porter, Axne, Casten, Pressley, McAdams, Ocasio-Cortez, Wexton, Lynch, Adams, Dean, Garcia of Illinois, Garcia of Texas, Phillips; McHenry, Wagner, King, Lucas, Posey, Luetkemeyer, Huizenga, Duffy, Stivers, Barr, Tipton, Williams, Hill, Zeldin, Loudermilk, Mooney, Davidson, Budd, Kustoff, Hollingsworth, Gonzalez of Ohio, Rose, Steil, Gooden, and Riggleman.

Chairwoman WATERS. The Financial Services Committee will come to order. Without objection, the Chair is authorized to declare a recess of the committee at any time.

At today's hearing, we are receiving the annual testimony of the Secretary of the Treasury on the state of the international financial system.

And I will now recognize myself for 4 minutes to give an opening statement.

Today, this committee convenes for a hearing to receive the annual testimony of the Secretary of the Treasury on the state of the international financial system. I would like to start by talking about the International Development Association, or IDA, which is the arm of the World Bank that provides grants and highly concessional loans to the world's poorest countries.

I am concerned that IDA, through its new private sector window (PSW) today is transferring \$2.5 billion to the World Bank's private sector investment arm, the International Finance Corporation (IFC), and is subsidizing private firms selected without competition on the basis of unsolicited proposals.

The PSW is likely to prioritize financial returns over positive development impacts which will be difficult to monitor. The PSW also stands in conflict with the World Bank's own principles that call

for subsidies to be justified, transparent, competitively based, focused on impact, and guarded against rent-seeking opportunities.

So my message to Treasury and to the World Bank is that unless these transfers stop, or at a minimum are competitively based and fully transparent down to the amounts and purpose of aid going to which firms and projects, the Administration's request for Congress to authorize the IFC's general capital increase will not be a committee priority.

Now, I would like to turn to Treasury's implementation of U.S. sanctions. The Secretary also must provide this committee with complete answers today regarding the Treasury Department's actions to delist companies associated with Russian oligarch Oleg Deripaska. Deripaska is a criminal, and Vladimir Putin's confidant, who should not be let off the hook from sanctions that were put in place to punish bad actors.

I am very concerned that the delisting agreement that Treasury implemented sends exactly the wrong message to Deripaska, other Russian oligarchs, and Putin himself, because Deripaska will still wield a great deal of influence over his previously sanctioned companies.

Trump has shown a deference to and a fondness for Vladimir Putin, including at the Helsinki summit last summer when Trump inexplicably sided with Putin over his own Justice Department, when the FBI indicted 12 Russian intelligence officers for conspiracy to interfere in the 2016 U.S. presidential elections.

It's very troubling that it appears that this dynamic may be affecting sanctions policy with the Trump Administration's Treasury Department, enabling Russian bad actors like Deripaska to evade sanctions.

Moreover, Congress mandated several sanctions to be placed on Russia that Treasury has still not implemented, including sanctions required by the Chemical and Biological Weapons Act that the Administration had a statutory deadline to impose by last November.

So, Secretary Mnuchin, you must explain these decisions in your public testimony today and address several other important issues. I expect you to be forthcoming with this committee.

I also understand that despite our efforts to accommodate your schedule, you have now made another engagement this evening. This is unacceptable. If you are unwilling to stay today for the full duration of this hearing, the committee will compel your return for multiple additional hearings in the month of May.

The Chair now recognizes the ranking member of the committee, the gentleman from North Carolina, Mr. McHenry, for 5 minutes for an opening statement.

Mr. MCHENRY. Well, welcome, Secretary Mnuchin. Welcome back to the committee. You come before this committee at a really precarious time for global markets. In fact, I wrote you in January right after the vote in the U.K. Parliament regarding Brexit.

In that letter, I raised questions about the uncertainty of a prolonged Brexit and the effect it would have on financial institutions, the derivatives market, cross-border trading, and the financial services and insurance contracts.

And after three failed attempts, the Prime Minister of Great Britain continues to work towards Friday's deadline on Brexit. In Europe, the long and uncertain path towards Brexit is coupled with a possible slowdown in Germany.

I am particularly concerned about the overexposure of German banks and what this means for U.S. financial institutions. This is a serious thing for systemic risk. For example, last month, Forbes opined on the Deutsche Bank and Commerzbank merger indicating that both banks were in such deep trouble that even a merger couldn't help either one of them, and that is problematic.

The global issues aren't just limited to the U.K. and Europe. In China, the era of double-digit growth is seemingly at an end, and thanks to the state-run allocation of capital, a disregard for the rule of law, and a regime that favors the theft of intellectual property over homegrown ideas, we see that coming home to roost.

Moreover, should we be concerned—this is actually a pretty interesting question that I think is worthy of discussion here at Financial Services—that China has joined the Bloomberg Barclays Global-Aggregate Index, opening up their \$13 trillion debt market to investors?

The move is expected to bring in more than \$180 billion in investor capital to China. What does this move mean for global markets? What effect does it have? Notwithstanding these risks, traditional threats to global stability remain, whether they emerge from international terrorism, weapons proliferation, or illicit finance flows.

Treasury plays a critical role by administering sanctions and protecting the U.S. financial system, areas of bipartisanship on Capitol Hill, and we view the Treasury as important to this. That is why we give you this authority, and we think it should be used responsibly but forcefully with clear objectives of national interest.

Finally, I want to make a special note of the Committee on Foreign Investment in the United States, or CFIUS, which is quickly becoming a model for other countries looking to screen investments for national security risks.

Treasury's responsibility under this law has a significant impact on the global investment environment. Through bipartisan work here on Capitol Hill, we made significant changes to CFIUS in a way that targeted legitimate national security threats while preserving and even championing the United States' open investment climate.

In fact, just last week, CFIUS unwound two deals involving Chinese investors. I look forward to working with the chairwoman to ensure that that piece of legislation is faithfully implemented and that regulations conform with congressional intent.

And with that, I would like to yield the balance of my time to the gentleman from Ohio, Mr. Stivers.

Mr. STIVERS. I would like to thank the gentleman for yielding. Mr. Secretary, thanks for being here.

I do want to take this opportunity to highlight the need to reauthorize the Export-Import Bank that expires in October. The Ex-Im Bank supports American exports and American jobs. Competition for international markets is fierce and United States companies already operate at a disadvantage.

China's support for their export credit finance agency dwarfs our Ex-Im. The Chinese Ex-Im equivalent was \$36 billion in 2017 compared to only \$200 million for the Ex-Im bank in the United States.

I look forward to working with you to make sure we reauthorize this very important agency and institute reforms that will strengthen its ability to help American workers compete on the global playing field. I am also looking forward to your testimony with regard to global uncertainty, sanctions, international development, and the Bank Secrecy Act.

Thank you for being here.

I yield back the balance of my time to the ranking member.

Mr. MCHENRY. I yield back.

Chairwoman WATERS. Thank you. The Chair now recognizes the subcommittee chairman, Mr. Cleaver, for 1 minute.

Mr. CLEAVER. Thank you, Madam Chairwoman. And thank you, Mr. Secretary, for appearing before this committee. And also, thank you for your service to our country.

When you took this job, you, like Members of Congress, swore an oath to faithfully defend the Constitution against all enemies, foreign and domestic. In these unusual times, that oath is being tested.

It is my opinion that many of our critically important institutions are actually being threatened. I think this hearing is an opportunity for you to tell us about how you are holding onto these institutions.

Hopefully, you will provide candid answers to questions on your role and decisions impacting our citizens, and frankly the entire world, decisions that include a dangerous and wrongheaded trade and tariff policy that reduces America's income at a rate of \$1.4 billion each month according to the Federal Reserve, the same policies that the U.S. Chamber of Commerce says threaten 2.6 million American jobs.

We will also have, hopefully, a better understanding of how this Administration decides to remove sanctions against Russia and North Korea, these two countries that have been identified in our unclassified worldwide threat assessment as primary threats to our national security.

I look forward to raising questions with you later. Thank you.

Chairwoman WATERS. Thank you very much. At this time, I want to welcome to the committee our witness, Mr. Steven T. Mnuchin, Secretary of the Treasury. He has served in his current position since 2017. Mr. Mnuchin has testified before the committee on previous occasions and I believe he does not need any further introduction.

Without objection, your written statement will be made a part of the record, Secretary Mnuchin, and you are now recognized for 5 minutes to present your oral testimony.

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

Secretary MNUCHIN. Thank you very much. It is a pleasure to be with you.

Chairwoman Waters, Ranking Member McHenry, and members of the committee, it is good to be here with you today to discuss



the state of the international financial system, the National Advisory Council on International Monetary and Financial Policies's report to Congress, and key priorities of the Treasury Department.

I am proud to report that President Trump's program of tax cuts, regulatory relief, and improved trade deals is resulting in the strongest economic growth for the American economy since 2005, and the best job market in generations.

I would also just like to comment on opportunity zones, which are an important key component of the Tax Cuts and Jobs Act. They will help more Americans benefit from our strong economy. Opportunity zones offer capital gains relief for investments in businesses in distressed communities. We are seeing a great deal of enthusiasm for this policy all across the country because it will lead to revitalization and restore the promise of prosperity to more workers and families.

The Administration is making trade with our international partners a top priority. I urge all Members of Congress to support the passage of the US-Mexico-Canada Agreement, USMCA. It will create the highest standards ever negotiated to protect intellectual property rights of entrepreneurs, provide strong support for the small and mid-sized businesses, encourage manufacturing, and opening markets for American agricultural products.

We are also making progress negotiating with China to rebalance our economic relationship, end unfair trade practices, open their economy to American companies, and protect our critical technology.

We remain focused on several economic issues related to national security. We are implementing the Foreign Investment Risk Review Modernization Act (FIRRMA). This legislation, which passed with overwhelming bipartisan support, modernizes the review process of the Committee on Foreign Investment in the United States, known as CFIUS, and enhances CFIUS's ability to analyze transactions for national security risks, preserving our commitment to an open investment environment.

Treasury is combating the abuse of our financial system by rogue regimes, terrorist organizations, cyber criminals, and other illicit actors. The United States Government and our international partners are putting unprecedented pressure on the illegitimate Maduro regime in Venezuela. We will continue to target this regime and support interim President Juan Guaido as he seeks to restore security and prosperity in his country.

Treasury is also using its authority to combat human rights abuses and corruption. We are pleased that many members of this committee have supported our sanctions and other actions. I assure you that the Administration will continue to aggressively target malign actors all around the world.

Turning to policy developments impacting international financial institutions, we are advancing reforms to more efficiently alleviate poverty and foster stability and growth in emerging markets. We are working constructively at the G7, the G20, the World Bank, the IMF, and other partners to foster debt transparency that will reduce the risks of crisis in developing countries.

As you are aware, the IMF aims to conclude the 15th General Review of Quotas this year. We believe the overall resources are

currently adequate for it to accomplish its goals. We are beginning discussions with other shareholders on this issue.

Finally, of particular note, we are requesting authorization for the funding of the World Bank's capital increase. In connection with this, we successfully negotiated a comprehensive reform package including lending measure limits and future need to limit future capital increases and focus resources on poorer countries.

We are also requesting authorization for the planned share purchase in the North American Development Bank with the goal of working more closely with Mexico to improve economic conditions.

I look forward to your questions, and to discussing ways to create more jobs and more opportunities for hard-working American families. Thank you very much.

[The prepared statement of Secretary Mnuchin can be found on page 100 of the appendix.]

Chairwoman WATERS. Thank you very much.

Secretary Mnuchin, Chairman Neal requested the President's tax returns last week. Section 6103 of the Internal Revenue Code states that when the Committee on Ways and Means makes such a request, "the Secretary shall furnish a return or return information specified in such request."

You are being asked to comply with the law today, and I can imagine you may feel your job as Secretary is on the line. Yesterday, President Trump forcibly ousted Secretary Nielsen, adding to a long list of cabinet level officials or staff that he forced out, including Chief of Staff John Kelly, Secretary of State Rex Tillerson, and Attorney General Jeff Sessions.

Secretary Mnuchin, will you comply with the law by the deadline tomorrow and furnish the tax returns, even if it means you may be fired by this President for doing so?

Secretary MNUCHIN. First of all, thank you very much for that question. I had the opportunity to answer similar questions this morning when I testified earlier today. As I previously said, I want to acknowledge that we have received the request. As I said before, we will follow the law. We are reviewing it with our internal legal department and I would leave it at that.

Chairwoman WATERS. Thank you. But I guess what you are basically saying is, you will follow the law and you are not afraid that you will be fired if in fact you release the returns?

Secretary MNUCHIN. Well, I am not afraid of being fired at all.

Chairwoman WATERS. Very good.

Secretary MNUCHIN. Having said that, again, I want to be clear, I have said we will follow the law and we are reviewing that—

Chairwoman WATERS. Okay. And I am very pleased that you are not afraid of being fired.

Secretary Mnuchin, since President Trump took office, numerous press reports have alleged that Trump associates and campaign officials attempted to negotiate the lifting of U.S. sanctions against Russia, and now I understand that when you lifted sanctions against Rusal, a major aluminum company largely owned by Russian oligarch Oleg Deripaska, you also directly benefited one of your former business associates and close friends, Leonid Blavatnik, with whom you owned RatPac-Dune Entertainment, or RPDE.

It also seems that Mr. Blavatnik has a close relationship with Mr. Deripaska. I have in my possession a series of letters the Treasury exchanged with Congresswoman Jackie Speier that pertain to this issue. Treasury's response to Ms. Speier denies media reports that you sold your ownership in RPDE to Mr. Blavatnik, stating that you sold your share to a third party unconnected to Mr. Blavatnik.

However, the letter does not comment on Mr. Blavatnik's company purchasing an interest in a related company, RatPac Entertainment, at the exact same time. Who is the third party that you sold your shares to?

Secretary MNUCHIN. First of all, let me just say, as to the relationship with Len Blavatnik, he is not a close associate of mine. He is someone whom I have met—

Chairwoman WATERS. Did you sell it to him as a third party?

Secretary MNUCHIN. No, I did not sell it to him as a third party—

Chairwoman WATERS. RatPac Entertainment?

Secretary MNUCHIN. Directly or indirectly.

Chairwoman WATERS. RatPac Entertainment?

Secretary MNUCHIN. I have no connection with RatPac Entertainment whatsoever, nor can I comment on, nor am I aware of the specifics of the ownership of RatPac Entertainment. It is a completely separate entity.

Chairwoman WATERS. So RatPac-Dune was and is in no way related to RatPac Entertainment, is that correct?

Secretary MNUCHIN. RatPac Entertainment was a passive investor in RatPac-Dune.

Chairwoman WATERS. So there is a connection between RatPac-Dune and RatPac Entertainment?

Secretary MNUCHIN. Again, RatPac was an investor in RatPac-Dune. I was not an investor of or associated with RatPac.

Chairwoman WATERS. But when we asked whether or not the third party was involved with RatPac Entertainment at the same time, one had nothing to do with the other, is that right?

Secretary MNUCHIN. That is correct. The third party had nothing to do with RatPac whatsoever.

Chairwoman WATERS. Well, who is the third party that you sold your shares to?

Secretary MNUCHIN. That was a confidential transaction that was sold to a third party.

Chairwoman WATERS. Was it a Russian oligarch?

Secretary MNUCHIN. No, I can assure you it was not any Russian oligarch or any Russian person whatsoever.

Chairwoman WATERS. Why is it you cannot share that information with this committee?

Secretary MNUCHIN. I don't think it is relevant.

Chairwoman WATERS. I think it is relevant because of your involvement with Russian oligarchs even before you became Treasury Secretary, and you are in the position now where you are dealing with sanctions that were placed on these oligarchs and it appears that you are delisting or lifting sanctions, and it may be a conflict of interest. Don't you think you need to straighten that out?

Secretary MNUCHIN. I don't believe I have ever met a Russian oligarch, nor did I ever do business with a Russian oligarch, and I would just comment that Blavatnik, I believe, was from a different country. He wasn't a Russian oligarch.

Chairwoman WATERS. So you never met or talked with or had any conversations with Mr. Deripaska or with Mr. Viktor Vekselberg or anybody about sanctions, is that correct?

Secretary MNUCHIN. That is correct. I have never met either of them—

Chairwoman WATERS. No. No, not met, but had a conversation with, period.

Secretary MNUCHIN. I have never had any conversation with either one of them.

Chairwoman WATERS. And you have never been involved with any oligarchs in terms of your previous business, is that right?

Secretary MNUCHIN. That is correct.

Chairwoman WATERS. All right. And so I am going to have the record record that the third party that you sold your shares to, you refuse to reveal to this committee. Is that right?

Secretary MNUCHIN. That is correct.

Chairwoman WATERS. Okay. Let us continue.

The gentleman from North Carolina, Ranking Member McHenry, is recognized for 5 minutes.

Mr. McHENRY. Secretary Mnuchin, I don't have any questions about your executive producer credentials, but I think you did well with "American Sniper," "Sully," "The Lego Movie," and most recently, "Wonder Woman." Congratulations to you on your box office success. Actually, I thought it was much funnier, but the crowd apparently didn't.

So, thank you for your testimony. As I alluded to in my opening statement, I wrote you this past January, in particular, about Brexit. In that letter, I referenced the Financial Stability Oversight Board's (FSOC's) annual report and a number of outcomes related to Brexit that could trigger distress. So would you describe what work you and other regulators have been doing with U.S. financial institutions as well as regulators abroad to prepare appropriately for a disorderly Brexit?

Secretary MNUCHIN. Sure. Well, let me just comment. First of all, I think it is a surprise to many of us that we are sitting here today still waiting to see how this plays out. But over the last year and, specifically, over the last 2 months, I have been working very closely with FSOC and with the appropriate regulators to make sure that our financial institutions are prepared for a hard Brexit.

Several weeks ago, I was in the U.K., and I met with both the prime minister and the chancellor of the Exchequer, Philip Hammond, and discussed it, as well as the head of the Bank of England. So we are very carefully monitoring these developments.

I think U.S. financial institutions are prepared, but I think there could be some significant disruptions in the markets and in trade, as a result of a hard Brexit.

Mr. McHENRY. Are regulators prepared and is our government prepared?

Secretary MNUCHIN. I believe we are prepared, although I would just say I think there will be many aspects of a hard Brexit, and

we have encouraged both parties to see if they can have a resolution that works.

Mr. MCHENRY. How does this week's actions, yesterday's and today's actions with the U.K. government in their conversations with the E.U., how does that relate to your activities? Have you heightened activities this week as a result?

Secretary MNUCHIN. I haven't been privy to the conversations that had been going on yesterday and the day before. But as I said, I have been actively involved with this over the last 6 months. And I think, at this point, we need to be prepared for a hard Brexit as a very realistic outcome.

Mr. MCHENRY. Okay. And so, with that mindset, you are prepared on Friday if there is a hard Brexit, as far as your footprint in Treasury? You have worked to see that we have done all that we can do in preparation?

Secretary MNUCHIN. That is correct. And we have coordinated with the Federal Reserve, the OCC, the FDIC, and the other appropriate regulators.

Mr. MCHENRY. So tomorrow, this committee is holding a hearing with the seven largest financial institutions here in the United States. And from your perspective, how would you describe the U.S. financial system currently? The current state?

Secretary MNUCHIN. I think the U.S. financial system, broadly, is very well-capitalized, has de-risked significantly, and is in very good shape.

Mr. MCHENRY. So the known knowns are well-provided for?

Secretary MNUCHIN. They are. But the unknown unknowns are what we always worry about.

Mr. MCHENRY. And that is the nature of the financial institutions.

Secretary MNUCHIN. That is correct.

Mr. MCHENRY. Some have described the banking environment as size equals survival. And as it relates to the Dodd-Frank Act, that has clearly been the case, where we have fewer small financial institutions because of the regulatory burden. Can you describe the cost to the system of that regulatory burden?

Secretary MNUCHIN. I think it is quite significant. And I think you know we worked with this committee and with the Senate last year on reforms to Dodd-Frank to make sure that community banks and regional banks can compete fairly. I think it is important that we have a robust regional bank and community bank system and that we don't end up with just a small number of banks in the country.

Mr. MCHENRY. So greater competition—

Secretary MNUCHIN. Absolutely.

Mr. MCHENRY. And less consolidation, basically as a result of regulation. So what role do U.S. financial institutions play in enforcement of sanctions?

Secretary MNUCHIN. U.S. financial institutions are critical in enforcing our sanctions.

Mr. MCHENRY. So there is enormous benefit to us being the reserve currency and for us having financial institutions to do international trade?

Secretary MNUCHIN. Absolutely. The U.S., as the reserve currency, is very, very important. There are many benefits that we have from that, and that is one of the reasons why our sanctions are such powerful national security tools.

Mr. MCHENRY. So if U.S. financial institutions do not play that role in sanctions, how would sanctions enforcement occur?

Secretary MNUCHIN. Well, it couldn't occur without both the U.S. financial institutions and other financial institutions that are connected to the U.S. system. That is critical.

Mr. MCHENRY. Final question: You described an embarrassing situation, that is, the IRS technology footprint. We look forward to working with you to ensure that there is proper funding so that the IRS can update its technology footprint. And thank you for making that publicly known.

And I yield back.

Chairwoman WATERS. Thank you. The gentlewoman from New York, Ms. Maloney, who is also the Chair of our Subcommittee on Investor Protection, Entrepreneurship, and Capital Markets, is recognized for 5 minutes.

Mrs. MALONEY. Thank you. Secretary Mnuchin, when you testified to this committee 2 years ago, I asked about beneficial ownership. You said that you looked forward to working with us on a solution to that issue.

And then when you testified last year, you said, "We have to figure out beneficial ownership in the next 6 months. I don't want to be coming back here next year and we don't have this solved, so we need to work with Congress on a bipartisan basis on this."

Well, Mr. Secretary, we have been working on a bipartisan basis on this issue, and I think we are very close to an agreement. The Treasury did provide us technical feedback on our bill, and we have incorporated all of your recommendations. And I want to thank you for that. You have seen the most recent draft of the bill, and I know you are still going through it, but I just want to ask you, do you think that we are headed in the right direction?

Secretary MNUCHIN. I do believe, generally, you are headed in the right direction, and I appreciate your work on this. I hope this is something that, on a bipartisan basis, we can get accomplished, both here and in the Senate. As I have said in the past, there are many things—I am proud of our accomplishments to date. But this is not one of them. And I do think we need to solve this, and I hope not to be back again next time without this solved.

Mrs. MALONEY. I hope that you are correct. Switching topics, you said in testimony this morning that your team had communicated with the White House Counsel's Office about Congress' request for the President's tax returns. But there isn't supposed to be any communication with the White House about this. The process was designed to avoid interference with the White House.

Now, I know that you said this morning that you personally weren't involved in those discussions with the White House, but obviously your team told you about those communications. So what did your team tell you about these communications with the White House?

Secretary MNUCHIN. Well, first, let me just say, as I commented on this morning, and I will repeat, I have had no direct conversa-

tions with the President or anybody else in the White House about this. As I volunteered this morning, I did make clear our legal department has consulted with the White House, as they would and as I believe would be normal.

That is not taking direction from the White House. I don't view that as interference. I think, as you know, it was widely publicized that we were going to receive the request and they consulted with them before it. It was not specific to the President's—anything related to the President's tax returns other than the expectation of getting this request.

Mrs. MALONEY. Well, did your team ask for the White House's permission to release the President's tax returns? Did the White House ask your team not to release the tax returns?

Secretary MNUCHIN. We would not ever ask for the White House's permission on this, nor did they give us the permission. As I have said, we have consulted, which I believe was appropriate of our legal department.

Mrs. MALONEY. Well, I think the fact that there was any communication with the White House about this is deeply troubling and certainly violates the spirit of the law, if not the letter of the law, and I think we need to get to the bottom of this. I yield back.

Chairwoman WATERS. The Chair advises Members that votes have been called on the Floor. The committee will recess for votes and resume immediately following. The committee stands in recess.

[Whereupon, at 2:36 p.m., the committee recessed, to reconvene at 3:22 p.m., the same day.]

Chairwoman WATERS. The gentleman from Michigan, Mr. Huizenga, is recognized for 5 minutes.

Mr. HUIZENGA. I appreciate the Chair's recognition. And it's good to see you again, Mr. Secretary.

I want to touch base really quickly on a couple of international issues, one being Venezuela, and the other one I want to touch on is the Export-Import Bank, and we will see if we can get to USMCA, as well.

But the United States, as you well know, as well as major European countries has recognized Juan Guaido as the interim president of Venezuela, but the IMF has yet to follow and do the same, and I am curious about your thoughts on how could Congress support additional resources for the IMF, let alone rescue Venezuela potentially if the fund disagrees with the largest shareholders on who the legitimate leader of Venezuela currently is?

Secretary MNUCHIN. Well, I don't think that the IMF necessarily disagrees. And as a matter of fact, I was with Christine Lagarde yesterday and we discussed this issue. The real issue is that we are focused on what would it take to unlock IMF resources to the interim government, and that is something we are constructively working with the IMF on.

And I would say more importantly, we are very focused at the appropriate time of the transition of using both IMF resources and World Bank resources to rebuild the country, that the people of Venezuela are in desperate need of an economic recovery.

Mr. HUIZENGA. And I might add the people of Venezuela deserve better. They—

Secretary MNUCHIN. Agreed.

Mr. HUIZENG. —deserve better than the current regime, and I certainly am hoping that Mr. Guaido is able to be recognized permanently. But any additional help you can give to make that happen would be deeply appreciated.

Export-Import Bank, the Bank dates back to 1945 and we have had a couple of iterations of reauthorizations, discussions, reforms of some degree. In fact, in the last go-around one of the provisions that was put in there was a requirement for the President to pursue negotiations with foreign countries to “substantially reduce with the possible goal of eliminating” those countries’ export subsidies. And I know that was specifically talked about with Airbus and what could be happening there.

Could you please give us an update on Treasury’s role in conducting these negotiations? And what specific progress, if any, are you making on this issue?

Secretary MNUCHIN. Yes, thank you. Well, first, let me just comment that President Trump is very interested in the Export-Import Bank and making sure that we have a quorum and that it can lend properly.

As it relates to export subsidies, that is something the Treasury is very involved in, and specifically in conversations that Ambassador Lighthizer and myself are having with China, that is a topic that is high on the list.

Mr. HUIZENG. So could you give us a little more specifics on the progress on that? Not all of us are big fans of the Export-Import Bank. When you look at the original intent of it, it was to get those smaller industries that were not able to be banked into a foreign transaction to be able to have the resources to be able to do that.

We have seen it go in some very different directions, and specifically I am looking for what is the status of those conversations?

Secretary MNUCHIN. The conversations with foreign countries on subsidies or the conversations on the use of the Export-Import Bank?

Mr. HUIZENG. Specifically dealing with the foreign countries having similar structures. The directive was that Treasury negotiate with these countries to try to reduce, if not remove, the need for those.

Secretary MNUCHIN. Yes, so at the G7 and the G20 we have been having very significant conversations. David Malpass, prior to leaving to become Head of the World Bank, oversaw those, and I think we are making progress also at the OECD.

Mr. HUIZENG. Okay, you have mentioned, very quickly, in your opening about the USMCA, coming from Michigan, which some statistics would point to the largest trading partnership being the U.S. and Canada. The sixth largest trading partnership is the State of Michigan and Canada. Give us an update on what is happening there and your take on how we are going to be dealing with the USMCA.

Secretary MNUCHIN. Well, I think the trade between the U.S., Canada, and Mexico is very important to our economy. I think, as I mentioned in my opening statement, that this is an agreement that brings forward trade very importantly and I hope it is brought up within Congress quickly so that it will be passed.



Chairwoman WATERS. The gentlewoman from New York, Ms. Velazquez, is recognized for 5 minutes.

Ms. VELAZQUEZ. Thank you, Chairwoman Waters. And thank you, Mr. Secretary. I was here earlier listening to your exchange with Chairwoman Waters and heard you say that you will comply with the law and furnish President Trump's tax return.

But what I did not hear you say to the chairwoman was whether you were going to comply with Chairman Neal's deadline of tomorrow. So my question to you is, yes or no, will you comply with Chairman Neal's deadline of tomorrow?

Secretary MNUCHIN. I want to clarify my previous comments so there is no misunderstanding. I said that I would comply with the law. I did not—

Ms. VELAZQUEZ. And the law said—and the written request from the chairman of the Committee on Ways and Means of the House of Representatives, the chairman of the Committee on Finance of the Senate, or the Chairman of the Joint Committee on Taxation, the Secretary shall furnish. So that is the law.

Secretary MNUCHIN. Again, I just want to be very clear so there is no misunderstanding. I have said that I will comply with the law. I have not made a comment in one way or another about whether we would supply the tax returns. I want to be very clear on that. We have said we will comply with the law.

Ms. VELAZQUEZ. What law then are you referring to? This is the law, U.S. Code §6103. So can you tell me what other law talks about tax returns?

Secretary MNUCHIN. That is the law, and as I have said we are consulting with our lawyers.

Ms. VELAZQUEZ. Well, you said you will comply with the law.

Secretary MNUCHIN. That is correct.

Ms. VELAZQUEZ. Well, we will see about tomorrow. Secretary Mnuchin, in early March, the U.S. officially hit the national debt ceiling, capping the debt at just over \$22 trillion. According to the CBO report produced in February, the Treasury Department will exhaust its use of extraordinary measures sometime in late September or early October.

Do you agree with the CBO's projection that the Treasury Department will exhaust its use of extraordinary measures sometime in the fall?

Secretary MNUCHIN. I am not going to give an exact date. There are a lot of assumptions. I think the more important issue is that I have written to Congress and I would urge Congress on a bipartisan basis to pass the debt ceiling.

This is something that is very important to our national debt and our national credit, and I would hope that this is not something that would be sitting here in late September—

Ms. VELAZQUEZ. Okay. I hear you. Thank you. What would be the consequences both domestically as well as internationally of the U.S. defaulting on even some of its debt?

Secretary MNUCHIN. I can't possibly imagine that anybody in Congress would ever want us to default on our debt. It would be quite disastrous.

Ms. VELAZQUEZ. So do you think the debt ceiling should be held hostage by any desire President Trump might have to fund his vanity wall?

Secretary MNUCHIN. The President has no interest in holding this hostage to any issue. The President has encouraged me and I have reached out to both the Democrats and Republicans in discussions. The President would like to have this passed as soon as we can.

Ms. VELAZQUEZ. Okay. Thank you. In the Treasury Department's budget request for Fiscal Year 2020, you and President Trump chose to eliminate funding for the CDFI Fund's discretionary grant and direct loan programs. Can you explain this decision and tell us how you think the communities served by these institutions will be impacted?

Secretary MNUCHIN. Thank you. I had the opportunity to talk about this issue this morning at the Appropriations Subcommittee, so let me repeat this. First of all, I want to acknowledge that I do think this program serves many communities in a significant way, that this was just a difficult decision looking at funding across multiple programs, how we have prioritized it.

And if this committee and other—if we have appropriations for that and that is Congress' desire, we shall properly administer the programs as they have been done in the past.

Ms. VELAZQUEZ. You bet that that money will be appropriated for the CDFI. Thank you. I yield back.

Chairwoman WATERS. The gentleman from Missouri, Mr. Luetkemeyer, is recognized for 5 minutes.

Mr. LUETKEMEYER. Thank you, Madam Chairwoman.

Welcome this afternoon, Secretary Mnuchin. I know a while ago Ms. Maloney talked about beneficial ownership. I just wanted to reiterate that I am working with her on the bill. I am looking forward to working with you to make sure that we get what we need on that.

I am not really happy about codifying a rule. I wish the Treasury would—if we could take our bill and hand it to you and you would make those changes, it would serve me better than us trying to codify it.

But today we haven't been able to get that done, and so maybe this is the best way to handle it, and I don't know if you have a comment on it? I would appreciate a comment.

Secretary MNUCHIN. Well, I appreciate the bipartisan views on this. And again, there are specifics we need to work out and we look forward to sitting down with you and others on the committee to try to get this done soon. I think it is an important—

Mr. LUETKEMEYER. If we could reach a bipartisan agreement, would you be willing to make those changes through the rule process or do we have to go legislatively?

Secretary MNUCHIN. I think that is something we need to sit down and discuss with the committee.

Mr. LUETKEMEYER. Okay. Thank you. As Secretary of the Treasury, you also serve as Chair of FSOC. FSOC is tasked with identifying risks and responding to emerging threats to financial stability.

In the past, FSOC has discussed the issue of CECL and many of the concerns around the standard. In my opinion, CECL affects numerous aspects of the economy and could have drastic procyclical issues like mark-to-market.

In my discussions with the FASB, they indicated they did not do any prior testing, any new surveying, did not do any studying, and as a result we are in the same situation with a rule I think could have a dramatic impact as what mark-to-market did whenever they didn't do the due diligence on that one, either, and had to pull it after the disaster of 2008.

So I am very concerned about the effect it could have especially on the GSEs and on the credit unions, who if you look at them having to build up reserves, the only way for them to find the income to build up those reserves and keep them there is through raising the fees on loans.

We had in this committee back in December the Home Builder's Association, which said for every \$1,000 increase on a home loan, 100,000 people no longer have access to credit or to be able to buy or build a home. That is dramatic. That is going to have a tremendous effect on the economy if it would have that level of cost.

They are both doing studies right now to find that out and we are hopeful that FASB will put a pause on this until we can study this, because they didn't, and we need to have these industries studied to make sure we get that done. Would you support something like that?

Secretary MNUCHIN. This is an issue we are closely studying. We look forward to speaking to you and following up on this and it is something we are discussing very closely at FSOC. And since you have mentioned GSEs, I do hope that is an area that we can work on, on a bipartisan basis for GSE reforms.

Mr. LUETKEMEYER. Well, my concern is that the GSEs are going to have to come up with billions of dollars to put in the reserves. When you have a \$5 trillion portfolio, with just a back-of-the-envelope analysis of a 2 percent reserve, you are at \$100 billion. And they are nowhere near that.

So I don't how they are going to raise the money, quite frankly, unless they raise fees, which is going to have a dramatic effect on the economy—and the same thing with credit unions. So my concern is I hope that the regulators, and a lot of folks who are involved in economic policy, take into consideration what is going on with CECL.

We will work to try and find a way to get FASB to pause on this so we can see it to make sure we know what the effects of this are going to be before we implement this rule and don't have the same disastrous results that we did with mark-to-market. So I appreciate your concern and working on that with us.

One of the things that I saw, about last week or week before last, in the Wall Street Journal, there was a chart on the front page that talked about the value of European banks versus the value of American banks. And it was kind of interesting because European banks were 70 percent of their book value. And American banks were 1.09, or roughly 10 percent, above book value, which tells me that our banks are in good shape. I think that is great. We have a good, strong economy.

But it also tells you that European banks are in trouble. When they are valued at 70 percent of what their book value is, it tells you the bank is in trouble, their economy is in trouble, or both, and that is not good.

So I think you mentioned a while ago, and I think the ranking member talked about Brexit. With that in mind, with these—with the weakness of the—in my mind and just splashed on the front page of the Journal there, how do you see this playing out? Do you see this as a concern? Do you see this Brexit going to be able to work this thing out and the banks are going to recover? Is that rating a result of Brexit, or is that just a rating of some other weaknesses in the economy and the banking system?

Secretary MNUCHIN. Well, as you pointed out, there is no question that U.S. banks are much better capitalized than European banks. There is no question that, as you have pointed out, the U.S. economy is much stronger than what is going on in Europe. And as it relates to making predictions on Brexit, that is a complicated thing to predict.

Mr. LUETKEMEYER. Okay. Thank you, Mr. Secretary.

Chairwoman WATERS. The gentleman from Missouri, Mr. Clay, who is also the Chair of our Subcommittee on Housing, Community Development, and Insurance, is recognized for 5 minutes.

Mr. CLAY. Thank you, Madam Chairwoman. And thank you, Mr. Secretary, for being here. I have some concerns about the compliance history of Deutsche Bank and the potential national security and criminal risk posed by its operations in the United States.

Recently, the New York Department of Financial Services and the U.K. Financial Conduct Authority have brought actions against Deutsche Bank for its role in facilitating suspicious activity in the United States. Can you comment on any and all enforcement activities involving Deutsche Bank and provide this committee some background for the record?

Secretary MNUCHIN. I don't think it would be appropriate for me to comment on the regulator's ongoing activity as it relates to Deutsche Bank. The primary responsibility of this is with the primary regulators. Obviously, from Treasury's standpoint, that is the OCC and FinCEN. And again, I can assure you the regulators are very focused on Deutsche Bank, as they are on other banks, but I can't comment on ongoing enforcement matters.

Mr. CLAY. And does it give you pause or a concern about the activities of a bank operating in this country with some serious questions behind it? Does that give you concern?

Secretary MNUCHIN. I want to be careful, as Secretary, of what I say. But I have a lot of conferences with our regulators and them being on top of these issues. And I would say, as a general matter, not specific to Deutsche Bank, the issues that you talk about we take very seriously, and I discuss with the financial regulators regularly.

Mr. CLAY. Thank you for that response. When you testified before our committee last July, you stated that, "At this time, the United States finds the IMF's resources are adequate, following the 2016 implementation of the 2010 quota and governance reform package."

Most recently, in December, when Treasury Under Secretary David Malpass testified before our committee, he explicitly stated that the Administration will not support an IMF quota increase, essentially bringing to a halt a decade of slow progress in reforming the Fund's governance structure to make it more representative, legitimate, and therefore more effective.

Now, this will seem shortsighted to some, as it allows Japan and Europe to maintain its overweight voting power. And of course, none of this will be lost on China or other under-represented emerging markets.

Are you concerned that the Administration's rejection of any possible reform of voting shares at the Fund could alienate China and other emerging markets, which in turn might cause them to drift away from the multilateral institutions and increasingly towards regionalism?

Secretary MNUCHIN. Well, let me just clarify. I am the lead as it relates to the IMF issues. We are—actually, I am looking forward to IMF meetings this week. People are coming in from all over the world. Just to clarify a few things. We have said, one, we are comfortable with the resources they have today, but I think, as you know, the NAB will roll off.

Two, we have said we don't support an increase in quotas, but we are in ongoing discussions with the IMF and the other shareholders about what we do to support the balance sheet. And I think the United States leadership at the IMF as the largest shareholder is very important to us.

Mr. CLAY. Well, what about the governance structure and—

Secretary MNUCHIN. The governance is also very important. And as part of any ongoing issue, governance and reforms are high on the priority list, just as they have been with the World Bank.

Mr. CLAY. I see. And a couple of years ago, the Chinese yuan had joined the U.S. dollar, the euro, the yen, and the British pound in the IMF's Special Drawing Rights basket, which determines currencies that countries can receive as part of IMF loans.

By joining this elite grouping, China certainly doesn't appear to be a developing nation. If an American from St. Louis wanted to invest in China, could they have full confidence in the Chinese banking system?

Secretary MNUCHIN. The question was, should an American have full confidence in the Chinese banking system?

Mr. CLAY. Yes.

Secretary MNUCHIN. It is a general comment. I am sure there are banks there that are well-capitalized and banks there that have significant problems. Their system is highly leveraged.

Mr. CLAY. Thank you. My time is up.

Chairwoman WATERS. The gentleman from Wisconsin, Mr. Duffy, is recognized for 5 minutes.

Mr. DUFFY. Thank you, Madam Chairwoman.

Welcome, Secretary Mnuchin. I have concerns about the status of the ongoing negotiations at the International Association of Insurance Supervisors (IAIS). They are developing an international capital standard (ICS).

I would note that Randy Quarles gave a speech in January and stated that the ICS "may not be optimal for the United States in-

insurance markets,” obviously expressing some concern about this negotiation. I guess my question to you is, looking at this tried-and-true U.S. system of insurance regulation, in your role in the FSB, are you going to lean in and protect our system, advocate, fight, negotiate for our system, and our capital standards?

Secretary MNUCHIN. Of course.

Mr. DUFFY. Are you doing that?

Secretary MNUCHIN. Yes.

Mr. DUFFY. Are you respected? I imagine you are pretty well respected.

Secretary MNUCHIN. Yes.

Mr. DUFFY. So if you and Mr. Quarles lean into this, we should get a better result than what we are hearing from the speech from Mr. Quarles, right?

Secretary MNUCHIN. I would hope so.

Mr. DUFFY. So would I. Okay, great, thank you. Let’s talk Fedwire. Obviously, it moves over \$600 billion a day in payments, and last week Fedwire went down and was completely non-operational for more than 3 hours. Were you briefed by the Federal Reserve about—

Secretary MNUCHIN. I was.

Mr. DUFFY. And can you tell us what happened? I mean, 3 hours is concerning.

Secretary MNUCHIN. First of all, I would just say I was completely abreast of it real-time. The Chair and I were speaking real-time on this issue. The Fed had backup plans that I was comfortable with, I think it would be inappropriate in a public forum like this for me to comment on the specifics, but I am happy to follow up—

Mr. DUFFY. Did the backup not work?

Secretary MNUCHIN. Excuse me?

Mr. DUFFY. Did the backup not work, because it was down about 3 hours.

Secretary MNUCHIN. Again, I want to be careful. I am more than happy to come and talk to you in a different setting. I will say, I have complete confidence in the Fedwire system. I was fully aware of the specifics of what was going on. We were completely on top of it.

Mr. DUFFY. Okay. I would appreciate a further conversation in a different setting. Are you a lawyer?

Secretary MNUCHIN. I am not, but I deal with a lot of lawyers.

Mr. DUFFY. Sorry about that. So I don’t know if you have an opinion as to—maybe you know this. Is a Presidential candidate or a President required to release their tax returns?

Secretary MNUCHIN. I do not believe they are.

Mr. DUFFY. And it has been common practice oftentimes that they will release their tax returns, but they are not required, is that your understanding?

Secretary MNUCHIN. I believe that is the case.

Mr. DUFFY. I actually agree with that practice. I have said publicly that I think that President Trump should release his tax returns, it could be a good thing, but the President has chosen not to release his tax returns. I think you are going to get a lot more questions today about taxes.

And I would just note that to walk down a political road where we are going to use the Chairman of Ways and Means and the power given to the Chair for political purposes to gain the tax returns of our political opponents, we know that when one action is taken, it oftentimes doesn't stop.

I don't know if anyone in this room wants to have their taxes released. I don't know if Hillary and Bill want theirs released, and Obama wants his released. We could play this game out. And I guess this is for no investigative purpose. We heard for 2 years that Bob Mueller has to be protected, Bob Mueller is the gold standard. Don't cut his money, you make sure that you protect him and let him do his work.

And he did his work. We got a synopsis. And it is not over. We continue to have debate about, well, there might be something in the report. Maybe we can get the actual report out regardless of what is confidential, what is from investigations. And now we have gone on to tax returns, and I guess I want you to follow the law. It is important.

But I would just note that in this room, we should be awfully concerned that what is good for the goose, is good for the gander. What happens here will probably come around. I invite you, as well. And so the President is not required to release his taxes. He hasn't released them. I think he should. He hasn't, and I think we should let it go at that.

Secretary MNUCHIN. Well, as I have said, we do intend to do follow the law. I would just say, I think that if Kevin Brady, when he had been Chair of the committee, had requested high-profile Democrat tax returns, there would have been significant concerns.

Mr. DUFFY. There would have been concerns.

Secretary MNUCHIN. We will follow the law.

Mr. DUFFY. I am shocked to hear that, Mr. Secretary. Of course, there would have been concerns.

Chairwoman WATERS. Mr. Duffy, your time has expired. The gentleman from New York, Mr. Meeks, who is also the Chair of our Subcommittee on Consumer Protection and Financial Institutions, is recognized for 5 minutes.

Mr. MEEKS. Mr. Duffy, you went there. Barack Obama did disclose his tax returns. In fact, every President of United States since Nixon opened their tax return, and in fact, when someone gives their word, shouldn't one be, their word is their bond and they should live by what their word is? Is that not correct, Mr. Secretary? If you say something to the American people, you should tell them the truth, is that not correct?

Secretary MNUCHIN. I do tell the truth.

Mr. MEEKS. Okay, but since Mr. Duffy brought it up, the President of the United States told the American people that he would release his tax returns. And he has said it at least 16 times, that he would release his tax returns. He made a promise to the American people. Now, shouldn't the President of the United States be a man or a woman of their word?

Secretary MNUCHIN. Well, let me just comment that—

Mr. MEEKS. Yes or no, Mr. Mnuchin?

Secretary MNUCHIN. I would like to answer—

Mr. MEEKS. Just answer yes or no. It is a yes-or-no question.

Secretary MNUCHIN. Again, what I have read in the press is, he said he would release his returns when he wasn't under audit, but I am not privy to the specifics of that.

Mr. MEEKS. He has said several times, he said before he was elected President and after he was elected President, that he would release his tax returns, and then we hear from his Chief of Staff that he is never going to, under any circumstances. So that means that he has lied to the American people.

I hope, Mr. Secretary, you are not a liar, and other individuals in the Administration are not liars, and that when you testify, you testify to the truth and not deceiving individuals. I hope as this President—

Mr. DUFFY. Madam Chairwoman, I am going to raise a point of order.

Mr. MEEKS. You opened the door, sir.

Mr. DUFFY. If the gentleman is calling the President a liar—

Mr. MEEKS. You opened the door.

Mr. DUFFY. An order?

Mr. MEEKS. I didn't call anybody—I am saying that you can go to the videotape and see what the President said and what he hasn't done. And so, yes—

Mr. DUFFY. If the gentleman—

Mr. MEEKS. If that is that I am calling—

Chairwoman WATERS. The time belongs to the gentleman from New York.

Mr. MEEKS. —the President of the United States a liar—

Chairwoman WATERS. Please do not interrupt him.

Mr. DUFFY. I have a point of order, though.

Chairwoman WATERS. There is no point of order. What is your point of order?

Mr. DUFFY. It is my point of order. Is the President a covered personality?

Chairwoman WATERS. Members are reminded to avoid personality in their remarks. What is your point of order?

Mr. DUFFY. That the President is a covered personality and I believe the gentleman was calling the President a liar.

Chairwoman WATERS. The Chair does not recognize that as a point of order. Will the gentleman proceed with—

Mr. MEEKS. Yes. I just want a few more times like to point of order—

Mr. DUFFY. I would move to take the gentleman's words down.

Mr. MEEKS. So, what I am saying, Mr. Secretary, is that the American people listen to what someone, when they make a statement, they make a commitment to the American people of whether they live up to it or not. And I am also stating that I am hoping that individuals of the Administration do the same, because there have been reports already that the President yesterday was telling individuals to disobey the law in regards to the security—the border line, and telling officers, "Don't listen to the judges."

Now, I came here with a whole other series of questions that I wanted to ask. But Mr. Duffy went there because I wanted to know some other things that are important to the American people. And now I am—he has raised my concerns because generally what happens at the top goes all the way down. And with all of the individ-



uals who were fired yesterday, some because they are trying to tell the President to follow the law, and then the President would not follow the law, then it gives me concerns.

And I think that is why the chairwoman asked you, "Are you concerned about your job?" Because it seems as though individuals within the Administration who follow the law and may tell the truth and not try to deceive individuals in some kind of way, the Administration of the President seems to want to fire them. And that was the nature of her initial questions that she had with you.

And I have almost lost all of my time, so I will just ask one question. I wanted to ask about—talk about leveraged lending and things of that nature, which is important. But I don't have that kind of time.

So let me ask you this. Slapping tariffs on our allies has made for tough negotiations. Do you believe those tariffs have been overly disruptive? And how do they serve our purpose when it comes to negotiating with Mexico and Canada? Because it seems to me that they don't.

Secretary MNUCHIN. Well, I am very pleased with the agreement we have with Mexico and Canada. And I will tell you as it relates to China, the tariffs have been effective in getting China to the negotiating table.

And I know you ran out of time, but let me just comment on leveraged lending, since you brought that up.

Chair, would you like me to comment on—I won't.

Chairwoman WATERS. The gentleman from Ohio, Mr. Stivers, is recognized for 5 minutes.

Mr. STIVERS. Thank you, Madam Chairwoman.

I am over here, Mr. Secretary. Thanks for being here today. So Ambassador Lighthizer testified in front of the Ways and Means Committee recently and said that it is really important to reauthorize the Export-Import Bank because it supports American jobs and American exports. Do you agree with Ambassador Lighthizer's assessment?

Secretary MNUCHIN. I do.

Mr. STIVERS. Great. And we look forward to working with you on a bipartisan basis to reauthorize the Export-Import Bank and make important reforms to make sure that it has all the safeguards that need to be in place for the taxpayers and to make sure that it is running effectively. But I really appreciate your thoughts and opinions on that.

I said I wanted to talk to you a little bit about suspicious activity reports. You are in charge of the Financial Crimes Enforcement Network, FinCEN, that collects suspicious activity reports, SARs. And almost a million of those were filed last year by financial institutions.

Many times, that happens without a feedback loop to the financial institutions to help them be better at preparing and knowing what was good information, and what was bad information.

And it seems to me that there might be a better way to conduct SARs, even if we don't change the reporting threshold, just getting the information and making it more useful in a central database or some type of way where it is query-able by the folks who need it. Are you working on anything to make those more effective?

Secretary MNUCHIN. Yes, we are. First, let me just comment, the SARs are very important for all of our law enforcement and our activities around sanctions. So when I was a banker, I was concerned these things just went into a black hole. We do use them, but we are actively looking at the policy around SARs and we are working with FinCEN and TFI on looking at whether we should make certain changes. So thank you for bringing that up.

Mr. STIVERS. And if you could—and I understand that you can't report back on everything. But there may be a way to create a feedback loop to make the production more effective.

Some of these folks are, again and again, doing the same things and maybe making the same mistakes on these suspicious activity reports, or making them less effective for law enforcement than they could or should be. So some type of feedback would be very helpful for a lot of folks who want to help, as you are trying to help catch the bad guys.

Secretary MNUCHIN. Thank you.

Mr. STIVERS. Thank you. Finally, I wanted to touch on something that I know some other people have talked about. Tomorrow there is going to be a hearing with seven of the large financial banks in America. And we talked a little bit about what would happen with sanctions if we didn't have large American banks.

If the U.S. didn't have global banking institutions, and instead we had to rely on European entities, Chinese entities, and other foreign entities to help try to make our sanctions effective, would they be able to be implemented? And would they be as effective at shutting down rogue regimes?

Secretary MNUCHIN. No, they wouldn't. The U.S. financial system and the strength of it and the importance of the dollar and the large financial institutions are all critical to our sanctions enforcement.

Mr. STIVERS. Thank you.

I yield back the balance of my time.

Chairwoman WATERS. The gentleman from Georgia, Mr. Scott, is recognized for 5 minutes.

Mr. SCOTT. Thank you, Madam Chairwoman.

Treasury Secretary Mnuchin, are you under oath to tell us the truth today?

Secretary MNUCHIN. I don't know technically if I am under oath or not, but I am here to tell you the truth. Yes.

Mr. SCOTT. You are here to tell us the truth? Have you ever had any business dealings with Russians?

Secretary MNUCHIN. Have I had any business dealings with Russians?

Mr. SCOTT. Yes, sir.

Secretary MNUCHIN. Not that I am aware of. But I just want to be clear, my great-grandparents emigrated here from Russia. So I may be a minuscule part Russian myself.

Mr. SCOTT. Let me ask you this: Have you ever had any business dealings with Russian oligarchs?

Secretary MNUCHIN. No. As I commented earlier, I don't even believe I know any Russian oligarchs.

Mr. SCOTT. Do you have any knowledge of anyone in the Trump Administration who has done business with Russians?

Secretary MNUCHIN. The Trump Administration is very large. I cannot comment on the entire Trump Administration—

Mr. SCOTT. Do you know, if we get specific, then, of any business dealings that President Donald Trump has had with Russians as a businessman?

Secretary MNUCHIN. I have no access to the President's finances—

Mr. SCOTT. No. I am not asking—

Secretary MNUCHIN. —other than what I read in the press.

Mr. SCOTT. I am not asking access. You see, Mr. Mnuchin, you are the Treasury Secretary. You are our chief steward of all economic matters, as far as we are concerned, in the world, trade matters, financial matters. It is within your purview and covers the waterfront, just as our very first Treasury Secretary Alexander Hamilton did. Treaties, you name it.

My whole point is this. Now, the reason these questions are coming up to you is, there is such a great hunger among the American people to try to find out what is it about Russia and the relationship with this Administration that causes this unease? Nowhere was that more paramount than in sitting on the world stage, President Trump took the word, the advice of Putin over his own Treasury Secretary, his own intelligence.

So it sets many in America—and I would say the large majority—and that is why we are trying to get to these questions.

But before I go, I want to get back to the trade issue—something that you are dealing with. I represent the great State of Georgia and we are number one in peanuts, pecans, and poultry, and number two in cotton, and right now, all of these industries are suffering.

And I want to just get your opinion here. The latest data says that nearly 100 percent of cotton produced in the United States is exported. U.S. cotton and cotton yarns are subject to an additional 25 percent tariff in China due to the trade dispute.

Georgia makes one-third of all the pecans produced in the nation. Half of those go to China, 25 percent. Where is this coming to? And you just made a statement that China is resolved. How so? When my people in Georgia, my farmers and producers are just hanging on by their fingernails because of this trade situation? What can you tell me to tell my farmers in Georgia? Cotton and—

Secretary MNUCHIN. I want to make just two quick statements. First of all, I don't believe that the President listened to Putin over me, okay, or am I aware of his intelligence.

On the farmers, I can assure you that I am working very hard on the China deal, and agriculture is a very important part of that, so I appreciate that.

Chairwoman WATERS. The gentleman from Texas, Mr. Williams, is recognized for 5 minutes.

Mr. WILLIAMS. Thank you, Madam Chairwoman. Mr. Secretary, thank you for being here today. There is currently a debate going on in our country about the economic systems of capitalism versus socialism. As you know, I am a small-business owner. I am a car dealer who is a strong believer in markets, the concept of risk and reward, and individual freedom.

The U.S. economy is growing at the fastest pace in over a decade while most of the developed world is experiencing an economic slowdown. And yet some people, some on the other side of the aisle are unwilling to accept the reality that our success for the past 2 years is a result of reducing the government's footprint in the free market.

So, Mr. Secretary, are you a capitalist or a socialist?

Secretary MNUCHIN. I am a capitalist.

Mr. WILLIAMS. That is great. And what effect would it have on GDP and the U.S. economy if we began to turn away from free market principles and take a more socialist approach?

Secretary MNUCHIN. I think it would be disastrous for the economy, and every single country that has pursued those economic goals has deteriorated significantly.

Mr. WILLIAMS. Venezuela, Cuba, just to name a few.

Secretary MNUCHIN. And many more.

Mr. WILLIAMS. Yes. The economy is booming because the tax cuts that were enacted last year are simply working. Unleashing the power of the private sector has led to increased capital investments, more job opportunities, and higher wages for workers. These are all very positive outcomes in the short term, and these capital investments will continue to pay dividends into the future.

With that being said, we should not get complacent. What do you see as the biggest obstacle holding back the economy from even higher growth?

Secretary MNUCHIN. I think the good news is the economy is in very good shape. I think that clearly the world economy has slowed down. That is having some impact. I think getting our trade agreements renegotiated is probably the single most important issue for the economy, and that is why it is such a big priority of this Administration at the moment.

Mr. WILLIAMS. Last week, the Texas Bankers visited my office and talked about the Bank Secrecy Act. We discussed the current thresholds for currency transactions, suspicious activity reports being so low that it creates a heavy compliance burden for small banks.

When the CTR threshold of \$10,000 was initially implemented in 1970, that was enough to buy two brand new automobiles. This is no longer the case because of inflation. So how would you recommend adjusting the current CTR and SAR regime to make compliance easier for smaller institutions?

Secretary MNUCHIN. Well, we are looking at this carefully, and I am sympathetic to the issue for community banks and small regional banks. Having said that, with the advance of technology and people can break transactions up into many, many, many smaller transactions, we are not yet convinced that raising the limit is the appropriate issue, but we are continuing to study it.

Mr. WILLIAMS. Okay. While our country is moving in the right direction economically, I and a lot of people, and I am sure including yourself, are worried that we are not paying enough attention to the national debt which recently surpassed \$22 trillion, as we know. So as I said, I am concerned that our national debt will ultimately hinder economic growth in the country.

The net interest debt in 2018 was \$371 billion. That affects a lot of things. Fort Hood is in my district, and it affects the military. They are concerned about it. So that is a huge number. So how concerned should we be about our soaring national debt?

Secretary MNUCHIN. I am glad you brought it up. I think the debt is something that has doubled in the previous Administration. I think it is something that we have to be careful and watch government spending. That is why the President is trying to look at decreasing government spending.

The most important issue is growth. I am comfortable that we can support the national debt as a percentage of GDP as it is now, but we need to be on a pathway to make sure that the deficits don't continue to balloon and the government spending is not out of control.

Mr. WILLIAMS. We are of the age that we remember 20 percent interest in our lifetime, and 6 or 7 percent was a good rate, but right now with the debt, 6 or 7 percent could be harmful, so I think that we are doing the right thing in being worried about it.

And then on a side note I would like to—you and I have had conversations in the past on interest rates, and we have agreed on a lot of where the interest rates ought to go, and Chairman Powell was here the other day and said that interest rates would remain flat. So I want to thank him for that, and thank you for hearing me out when I talk about it.

I yield my time back, Madam Chairwoman.

Chairwoman WATERS. Thank you very much. The gentleman from Missouri, Mr. Cleaver, who is also the Chair of our Subcommittee on National Security, International Development, and Monetary Policy, is recognized for 5 minutes.

Mr. CLEAVER. Thank you, Madam Chairwoman.

Mr. Secretary, the President, I believe, has expressed publicly his support for reauthorization of the Export-Import Bank, and I am—because he has and people on both sides of the aisle are also interested. Has Treasury submitted the reauthorization request?

Secretary MNUCHIN. I am glad to hear that there is bipartisan support because this is important to the President, and my understanding is that we are working on that. We would like to see this—

Mr. CLEAVER. Don't you—yes, sir. We only have until September. And so it would be good if we had a reauthorization request submitted now. And that is one step before we are going to be able to get something done that can be done relatively easily.

Secretary MNUCHIN. My understanding is this is going through the interagency process at the moment. We are not the lead, but we are actively supporting this, and I appreciate your focus on this. Let me be clear, we want to reauthorize the Export-Import Bank.

Mr. CLEAVER. So it will be done shortly?

Secretary MNUCHIN. I am going to go back and find out the exact status from the people who are working on it, yes—

Mr. CLEAVER. Madam Chairwoman, is it appropriate for me to ask if I could receive, or if the committee could receive—

Secretary MNUCHIN. We will follow up with your staff.

Mr. CLEAVER. Okay, thank you. Let me go back and visit some places where you have been earlier. My first concern is the Amer-

ican public—as it is I am sure yours—but the American public is losing on the tariffs, and it is not just coming from me or a Democrat. It is coming from all over. The U.S. Chamber of Commerce has already said that we going to lose \$1.6 billion in export trade that is threatened.

And in my district, we are being decimated. I can understand why Senator Grassley came out and said we need to focus on creating opportunities instead of erecting barriers. I would like to see a resolution with Canada and Mexico, et cetera, is killing—that is my next door neighbor, Nebraska.

My farmers are being bludgeoned. I drove by some soybean fields 2 weeks ago to look at flood damage, and people are leaving the soybeans in the field, from \$10 down to \$8 now and dropping. I mean, people are hurting.

If you had a chance to look at the State of Missouri, \$432 million we export to Canada, \$72 million to Mexico, \$80 million to China, and \$239 million to Europe. You know, I spoke to a farmer on Friday, and he said, “Our patience is running out.” When I go back home on Friday, and I go out into the rural parts of my district, which is significant, what do I say?

I mean, they voted for the President. Is it too much for them to expect not to continue to be hurt?

Secretary MNUCHIN. No, they will be heard. And I have been accused that all I want to do is sell soybeans, but I can tell you I want structural reforms. But the vice premier, when he was here last time, committed to a very big order of soybeans, and I can assure you that agriculture is very important to the President and that is on the top of the list of issues to be resolved. I understand your concerns.

Mr. CLEAVER. Yes. My farmers don’t know anything about that. We are talking about U.S. tariffs costing American consumers about \$6.9 billion last year, and it may go up this year. And so I appreciate your concern for my appreciation, but, you know, I have to go home Friday. I have to talk to folks, and I would like to say, “I spoke to the Secretary of the Treasury and he said next Thursday at 3:00, the pain will begin to be diminished.” Or should I say Friday, what day?

Secretary MNUCHIN. Well, I can tell you, the Chinese have committed to a very, very large order. While we are negotiating, they have committed significant orders in the soybean—

Mr. CLEAVER. Already?

Secretary MNUCHIN. Yes, already. And they are in the markets executing those orders.

Mr. CLEAVER. Thank you, Madam Chairwoman.

Chairwoman WATERS. The gentleman from Ohio, Mr. Davidson, is recognized for 5 minutes.

Mr. DAVIDSON. Thank you, Madam Chairwoman. Secretary Mnuchin, thank you so much for your testimony and really the great work you and your Department are doing on behalf of the American people. Thank you.

I think you would agree that America is broadly seen as the world’s land of opportunity. People from all over the world, capital from all over the world comes here. And it is still attracted to the

United States of America. In fact, our GDP growth, our wage growth, and our favorable markets are the envy of the world.

We are an outlier in many respects to the rate of performance over the past 2 years. And one of the areas that I get concerned about is, in the midst of all that, why are some things not quite working?

America is still the most innovative country in the world, but when I see American innovators taking their innovation and raising the capital for that innovation outside the United States, something seems to be broken. What is wrong with our markets that this would happen?

And so as I look at blockchain, right now, for example, I see this reality where the innovation is happening in the United States and elsewhere, but it is rapidly happening elsewhere because even American companies are raising the capital outside of the United States, because they don't have the regulatory certainty they need for capital formation. And without the capital formation, we see so often that the development just doesn't take place.

So that is why today a bipartisan group from this committee, and outside the committee introduced the Token Taxonomy Act that would provide regulatory certainty for the crypto market to define what is a security and what is not a security.

But are you following the developments in blockchain? And just the dynamic impact that could have—not just for capital formation but for security, for the frameworks that we have for data security? Premier Xi Jinping maybe with hyperbole said that he believes that the blockchain will be 10 times more significant than the internet. So are you tracking blockchain significantly in the Department of the Treasury?

Secretary MNUCHIN. I am. There are not many things I would say I will take the other side of that, but I don't think blockchain will be 10 times more significant than the internet.

We are working with all the regulators on blockchain, and more importantly on crypto assets. We want to make sure that these can't be used for illicit purposes. And I am not familiar with your bill but I am happy to follow-up with your staff and understand your ideas.

Mr. DAVIDSON. Thank you, Mr. Secretary. And your staff has been very helpful, as have people across the industry, people in the SEC, and there is good support for a non-partisan topic as to where should this be regulated. But more broadly, when we look at this gap, you see when there is a gap between our regulatory frameworks and the demands, supply and demand get an imbalance, there is a black market. The United States—or the market simply moves. There is no black market.

And if you look in the past 12 months, finance moved to 50 percent market share for crypto assets. Part of the regulatory framework, as you highlighted earlier, that our banks have is because so much moves through the U.S. financial system, so much moves through the protocols that the United States has helped establish and that would include trade and including financial trade.

So I really think it would be advantageous for the United States to stay at the forefront of this. We are rapidly losing ground. We

need to quit studying the issue and get regulatory certainty for our market in this space.

I would say that towards that end, one of the encouraging things to me, as you highlighted in the USMCA, is trade. And in particular, I wonder if you could highlight some of the financial services wins because we hear so much more about manufacturing or agriculture. We see the expansion of financial services coverage in USMCA and including the framework that we are working on with China.

Secretary MNUCHIN. Thank you for pointing that out. We think the financial services improvements in USMCA are quite significant and quite frankly are a model to use in other trade agreements, and financial services in our discussions with China are very high on the list and we have made a lot of progress.

Mr. DAVIDSON. Thank you for that. And when you look at the framework and the protocols, FinCEN, whether you are talking OFAC with our sanctions, one of the underpinnings of that is the Bank Secrecy Act.

My colleague, Ms. Maloney, highlighted the work that she has done on beneficial ownership. I would just caution that as we look at this framework, you mentioned earlier that you conducted a private transaction that you would like to remain private.

There are legitimate business purposes why that should still be the case and should be subject only to discovery, not total criminal penalties for people who don't file forms that they don't even know exist. I yield back.

Mr. GREEN [presiding]. The gentleman yields back.

Mr. Sherman is recognized for 5 minutes.

Mr. SHERMAN. Thank you. I am actually going to agree with you on a couple of things. We should re-authorize the Ex-Im Bank, as the gentleman from Ohio pointed out, but it is meaningless unless you fill the seats on the board.

Can you tell us now that the President will fill the seats on the Ex-Im board and push the Senate to confirm so that we can get a functioning Ex-Im Bank? By way of background, if you authorize it, but you don't put board members on it, they can't do anything.

Secretary MNUCHIN. I am going to agree with you, as well, that not only do we have to re-authorize it, but we need the board quorum, and I can assure you the President is very interested in having the board filled.

Mr. SHERMAN. But he has not appointed anyone? I hope that you will get him more interested in actually appointing rather than thinking about appointing.

Second, as to tariffs, no economist wants tariffs, but tariffs are often the only way to push other countries to drop their tariffs and other barriers to entry.

The Chinese have calculated that we are in a stronger position to impose pain on them in order to get them to change, but that their political system is better able than ours to endure pain, and therefore they will beat us in these negotiations, make only token changes, and that we will continue to have the largest trade deficit in the history of bilateral trade in the history of the world.

My hope is—and I know that tariffs can be painful on both sides—that you will do what is necessary to get us a trade relation-



ship with China that is not the most pernicious, cancerous, malignant, and lopsided trade relationship in history.

As to marijuana, I don't know if Ed Perlmutter has spoken yet or not, I know they have to have some pride in the fact that those hundred dollar bills bear your signature, but carrying around big sacks of hundred dollar bills through our neighborhoods in California is not good public safety.

Will the Administration come out in favor of allowing those marijuana institutions that are legal under State law to be able to have access to the banking system?

Secretary MNUCHIN. Well, let me comment on that. I think this is a significant issue, particularly in my many roles, including the IRS, where we have had to build cash rooms to take in the cash. I am not going to make a comment on what the policy should be.

There is a problem that there is a conflict between the Federal law and State law, and until that is resolved, we cannot deal with it, without legislation or some other—

Mr. SHERMAN. Will you endorse—I mean, it is within the jurisdiction of the committee and relevant to your functions—Mr. Perlmutter's legislation which we passed on a bipartisan basis through this committee very recently?

Secretary MNUCHIN. I need to review it. I am not familiar with—

Mr. SHERMAN. Can you get back to us within 2 weeks on this?

Secretary MNUCHIN. I would be happy to review it and my staff will follow up.

Mr. SHERMAN. And then on the Ex-Im Bank, the pressure has to be not so much to appoint, but to get McConnell to confirm. I believe you finally sent up enough people to make a quorum.

Korea, on an uninterrupted basis for many years, has continued to create more fissile material. If you want a better deal, you are going to have to have stronger sanctions. I Chair and Mr. Yoho is the ranking member, we had reversed roles in prior years. We have sent you two letters urging you to sanction those major Chinese banks that violated the U.S. sanctions.

So far we have only sanctioned minor Chinese companies. But in particular, on May 21st, there was the announcement by your Department of sanctioning two relatively small shipping firms from China. Then the President tweeted the next day that he is withdrawing. Then it was announced that we wasn't withdrawing what you had done but was stopping you from doing something else.

Is there something more important than what you did on May 21st that you are considering that the President has told you not to do?

Secretary MNUCHIN. First of all, I would say, the sanctions are very important on North Korea. It is the only reason why they are negotiating—

Mr. SHERMAN. Well, pretending to negotiate is what they do when we have inadequate sanctions. Making real concessions is what they do when we have good sanctions. Go ahead.

Secretary MNUCHIN. I don't think we have inadequate sanctions. I think we have the strongest sanctions that ever existed. I know there was some confusion about the tweets. As I have clarified, the President never told me to take off those sanctions, and we didn't.

I can't comment on future sanctions, what we will do one way or another, but sanctions enforcement—

Mr. SHERMAN. Are you looking at major Chinese banks, without naming names?

Mr. GREEN. Mr. Sherman, your time has expired.

Secretary MNUCHIN. Again, I think it would be inappropriate to make any specific comment on people whom we are going to sanction in the future, whether it is there or anywhere else, but—

Mr. GREEN. The gentleman's time has expired. The Chair now recognizes the gentleman from North Carolina, Mr. Budd.

Mr. BUDD. I thank the Chair for yielding.

Mr. Secretary, thank you for being here. I am going to follow up on my colleague from Wisconsin, Mr. Duffy, what he mentioned on the topic of international insurance regulations. So, if the IAIS, or the International Association of Insurance Supervisors, refuses to do what my colleague from Wisconsin asked and provide the U.S. system formal recognition of this upcoming Abu Dhabi meeting, will you be willing—you, Mr. Secretary, would you be willing to force the IAIS to delay the adoption of the international capital standards to a later date where they will recognize the U.S. system and our aggregated capital approaches being developed by both the State insurance commissioners, all 50 States, and the Federal Reserve?

And here is why I am asking this question, background. It is critical that the U.S. insurance companies are provided some regulatory certainty and that they don't have to spend the next 5 years, which, by the way, is the time of the ICS monitoring and testing period—they don't have to spend the next 5 years wanting to know if the regulatory system will be sufficient for the IAIS.

So, will you agree to either make the IAIS publicly and formally recognize the U.S. system at that Abu Dhabi meeting, or delay the adoption to a later date?

Secretary MNUCHIN. I want to be careful making a public commitment on this but I am happy to speak to your office and we will follow up. I can assure you that we are focused on, and in favor of, the U.S. system, which is critical to our insurance companies.

Mr. BUDD. That is very helpful. It sounded like you were willing to and I don't want to put you in a corner on this. I understand the sensitivity here. But it sounded like, when you were talking with my colleague, that you would like to make that sort of commitment. And how certain are you that we can give some certainty to our State-based insurance companies? How certain are you that you can give them some future certainty?

Secretary MNUCHIN. Well, we always want to have regulatory certainty. That is critical. And this is an issue we are focused on so I look forward to following up with your office on this as we make progress quickly.

Mr. BUDD. Thank you for that. So, another concern I have with these international negotiations involves the Federal Insurance Office (FIO). Under the Trump Administration, we have seen the office stay really within its bounds and it has not acted like an insurance regulator, which is good.

But I have serious concerns about the Office being involved in overseas negotiations and even more concerned about what the Of-

fice could look like under a future Administration. For example, under the previous Administration, the Office went down the road of performing activities like issuing arbitrary and inaccurate reports, commenting negatively on the domestic insurance industry, initiating duplicative and unnecessary data calls, and acting like a quasi-regulator via the use of its very powerful subpoena authority.

So, Mr. Secretary, how does the current Administration view the role for the Office? And would you agree with me that it is important to put regulatory bounds on the FIO going forward to prevent what happened during the previous Administration or even worse?

Secretary MNUCHIN. Well, I can comment on what we are doing. I am not an expert on what was done in the previous Administration—

Mr. BUDD. That is fair. Go ahead.

Secretary MNUCHIN. I look forward to getting updated on that. It is not a regulator, it is not meant to be a regulator, and we would never support it being a primary regulator.

Mr. BUDD. And in the Administration that you work in, can you put some constraints on it that would protect against abuses in future Administrations?

Secretary MNUCHIN. We will take suggestions from you on this in your office and work with you on it.

Mr. BUDD. I look forward to the dialogue there. So, in the time I have left, I want to switch over and I want to discuss Hezbollah, who has a very sophisticated network of criminal activities to fund its terror operations in Lebanon and throughout the world, and that pretty much uses a lot of funding from Iran. The U.S. Treasury Department plays a vital role in helping to identify and stop the flow of illicit funds to the terror groups.

So, Mr. Secretary, what steps is the Treasury currently taking to stop the flow of resources to Hezbollah? And in particular, what are we doing to stop Iranian resources from going to Hezbollah?

Secretary MNUCHIN. I think you know we have the toughest sanctions on Iran and we are very focused on issues at Hezbollah. We are also focused with working with people in the region. One of the reasons why I need to leave this evening is because I have a bilat, an important bilat that is focused on combating terrorist financing. This is one of both my most important priorities and the Department's most important priorities.

Mr. BUDD. So, last year, Congress passed the Hezbollah International Financing Prevention Amendments Act of 2018 to increase our ability to target Hezbollah's global financing and reach. What steps has the Treasury taken to implement specifically this new legislation?

Secretary MNUCHIN. Well, first of all, we very much appreciate the additional funding we have had for TFI to build up these resources. And, again, since we are running out of time, we will follow up with you on the specific steps.

Mr. BUDD. I look forward to that, thank you.

Mr. GREEN. The gentleman's time has expired. I now recognize myself for 5 minutes.

Mr. Secretary, you recently had an encounter with ethics, and this had to do with an entity that you sold to your then-fiancee,

now wife. And by the way, this is in no way intended to demean her in any way, nor is it intended to demean you.

But you sold Stormchaser productions, and you sold it to her. And ethics, after having reviewed it, concluded that given that you gave an indication, let's call it a promise, to recuse yourself if there are any future dealings with the Government and Stormchaser, there would be no penalties imposed. Is this true?

Secretary MNUCHIN. Well, I appreciate you raising this, because I want to be very—

Mr. GREEN. Excuse me, I need to know if this is true because I really don't want to dwell on it. I am going on to something else. Is this true?

Secretary MNUCHIN. That I have committed to recuse?

Mr. GREEN. Yes, sir.

Secretary MNUCHIN. Yes, I have signed a new ethics agreement that has clarified. But just to be clear, had there been conflicts before then, I would have recused myself. So I have been in touch with ethics officials for the last 2 years—Treasury ethics officials.

Mr. GREEN. Thank you. As I said, I don't intend to dwell on that issue. But I do plan to go to another issue now that involves an entity known as RatPac-Dune. Are you familiar with RatPac-Dune?

Secretary MNUCHIN. I am very familiar with it.

Mr. GREEN. And is it true that you have sold your interests in RatPac-Dune?

Secretary MNUCHIN. Yes, I sold it a long time ago.

Mr. GREEN. And is it true that you have indicated that you need not expose the third party that you sold it to?

Secretary MNUCHIN. I'm sorry, could you repeat the question?

Mr. GREEN. Is it true that you have indicated that you need not, and will not, expose the third party that you sold it to?

Secretary MNUCHIN. It was a confidential transaction.

Mr. GREEN. A confidential transaction. Which means that we will have no idea—we, meaning the Oversight Subcommittee—as to what the terms or the conditions were? Not that I am overly interested in your personal business, but we don't know what the provisions are and we don't know what the entity is that purchased it. Is that a fair statement?

Secretary MNUCHIN. The transaction was fully approved by the ethics people at Treasury. So I don't anticipate there are any issues.

Mr. GREEN. But it is true that we are charged with the responsibility of oversight, correct? You agree, sure you do.

Secretary MNUCHIN. I am not an expert on your oversight responsibilities, so I will—

Mr. GREEN. Let me just assure that we are. We are charged with oversight. So the question becomes, how do we perform oversight of that which we cannot see? It is very difficult at best, probably impossible to accomplish.

I mention the two of you because we live in a world, Mr. Secretary, where it is not enough for things to be right; they must also look right. This may look right to some, but the truth be told, the American public is concerned.

In the case that you had with your wife, you signed an agreement to recuse, and if there is a conflict we will be aware of the

conflict and understand that you must recuse. With RatPac, we will not have the ability to monitor the relationship because we have no idea as to what it is.

Therefore, we cannot ascertain based on empirical evidence whether you should recuse. My point is this: It would seem to me that in the interest of the public having a belief that our system functions fairly and properly with transparency, that you would reveal to whom you sold the interest.

You don't have to tell us how much. There are numbers floating around, \$25 million, but it would seem that you would reveal this. You have said you won't, so I won't ask you to do it. But it just seems to me that that would be an appropriate thing for a person who has the lofty position of being the Treasury Secretary of the United States of America—it seems that that would be appropriate. I won't ask you to respond.

Secretary MNUCHIN. Well, I do want to have the opportunity to respond. I just want to make one thing and clarify, and this is all in the public domain, the entity of RatPac-Dune had a transaction with Warner Brothers. Warner Brothers bought it out and that entity is fully liquidated.

So not only do I not have any interest in that entity at this point, but nobody has any interest in that. That entity has been fully—so there couldn't possibly be any ongoing conflict whatsoever.

Mr. GREEN. And I will take your word for it.

Secretary MNUCHIN. Thank you.

Mr. GREEN. Unfortunately, I have to. I yield back my time, and I recognize the gentleman from Ohio, Mr. Gonzalez.

Mr. GONZALEZ OF OHIO. Thank you, Mr. Chairman. And thank you, Mr. Secretary, for being here. I think there are a lot of reasons for us to be very excited about the state of the United States economy, certainly when you compare it to what is going on in Europe and through really the entire world.

We can look at GDP, unemployment, wage growth, there are tons of reasons to be excited. And I agree, I think a lot of it primarily has to do with the deregulation and the tax cuts. I think it is fairly obvious.

When I think about the next stage of growth and how we can keep this moving, I go directly to trade, specifically U.S.-China. And I want to thank you and the Administration for finally stepping up and pushing back against China.

I think now kind of the curtain has been pulled back and I think the entire country has a good sense of just how disruptive they have been. But I want to ask sort of a tactical question to push back a bit.

My only real concern is we have been going in alone on that one. We are pursuing at the moment what seems like primarily a bilateral agreement. And I guess I would like to hear your perspective on why we have chosen bilateral versus partnering with some of our other allies, and if there is a plan to do that, because it strikes me that that would be a more forceful and potentially durable front.

Secretary MNUCHIN. Well, we do talk about these issues of China trade at the G7. It is something important. Having said that, we

have been unsuccessful for a long time doing this on a multilateral basis.

I think we are making a lot of progress. Ambassador Lighthizer is doing a terrific job with everybody at USTR. I have a call with him tonight and with the vice premier. And as we have said, we are making progress.

If we are able to conclude this, these will be the most significant structural changes that have ever occurred. If we are able to conclude this, there will be an enforcement that is very important to this. There will be an enforcement department built under the vice premier.

So we still have significant issues, but this will be one of the biggest accomplishments for U.S. trade, U.S. companies, and U.S. workers if we are able to open up their markets on a fair and level playing field and get structural changes.

Mr. GONZALEZ OF OHIO. I completely agree, and like I said, I applaud the effort, and hopefully you don't mistake my comments for suggesting otherwise. You touched on the enforcement piece, and again, I saw last week China decided or said that they would shut down entanyl factories.

I am from northeast Ohio, and Fentanyl opioids have been a huge challenge for our community. That is an incredible promise. The next question is on the enforcement. So specific to that on the fentanyl, what levels of enforcement do we have in place or how can we ensure that they are actually doing this?

Secretary MNUCHIN. Well, I can tell you the only reason why they did the fentanyl is because it was a personal request from President Trump to President Xi. President Xi made a point of saying how difficult this would be for them, but they were going to do this.

They have put through the laws. And I am very confident they are going to follow through on this, independent of any of our current trade negotiations. And it is a very important issue. It is killing, as you know, tens of thousands of people.

Mr. GONZALEZ OF OHIO. Just to clarify, so if we can't get the broader trade agreement, your suspicion is that the fentanyl ban will still be in place and we will be able to enforce it?

Secretary MNUCHIN. I have every expectation that that was not a conditional agreement.

Mr. GONZALEZ OF OHIO. Great. And now kind of shifting to the Belt and Road Initiative a little bit, I just saw that China recently expanded into Italy with this. I think it is hard to figure out exactly what they are doing, candidly. I think the details kind of stay out of the public eye.

But last Congress, we passed—I was not here, I am a freshman—but we passed the Better Utilization of Investments Leading to Development, the BUILD Act. It was signed into law to help counteract China's emergence in new markets.

What in addition can we do to push back on China's growing presence in the international development sphere?

Secretary MNUCHIN. Well, I think the single best thing is we now have David Malpass, who was my Under Secretary, as head of the World Bank. And I think both at the IMF and at the World Bank, debt and transparency are very important issues.

And I think the World Bank combined with our BUILD Act and other things can be a serious competitor to their Belt and Road.

Mr. GONZALEZ OF OHIO. Okay. Thank you, and with that I yield back the balance of my time.

Mrs. BEATTY [presiding]. I yield myself 5 minutes.

Thank you, Secretary Mnuchin, for being here. As I was reviewing your statement, in paragraph four of your statement, you note that opportunity zones are a key component of the Tax Cut and Jobs Act.

You also say that opportunity zones will offer capital gains tax relief for investments in businesses in distressed communities. So I would like to know, when is that going to happen? How many dollars will be put into distressed communities? And how will you protect and assure us that we won't have gentrification in these communities?

Secretary MNUCHIN. So, when it is going to happen, it has already started. People have already started creating opportunity zone funds. We have put out some regulations. We are putting out more regulations. We hope to get those out within the next few weeks. They are critical to create certainty.

Mrs. BEATTY. Where are some of those that are already in existence? Where are the dollars? What communities? What States?

Secretary MNUCHIN. No. What our—I was—

Mrs. BEATTY. Do you have any in Columbus, Ohio?

Secretary MNUCHIN. I was saying the funds—the funds have started, so the capital formation has started. Many of the investments are waiting for the regulations, which I said we hope to have out in the next few weeks.

In regards to how much, from commitments that I have heard people make, I could extrapolate, I think this is going to be over \$100 billion, and the issue of gentrification is something we are going to have to monitor very carefully and it will be part of the reporting process.

Mrs. BEATTY. So you will be able to put in writing to me how we would make sure that we don't take these minority or urban communities and then all of the dollars and change them to where those individuals no longer have a place to live?

Secretary MNUCHIN. Absolutely, and we look forward to working with you and your office on these issues. Our objective is to create more jobs and more opportunities in those communities, not to change them.

Mrs. BEATTY. Okay. Let me switch to another area that is of interest to me, and also in your testimony earlier you used language to eliminate poverty and to talk about growth. As you will recall, when you were here last year, I asked you about the Office of Minority and Women Inclusion (OMWI)—and you didn't do so well, if I was grading you with a test score.

You didn't know who your OMWI Director was. You didn't have a lot of information to offer me about OMWI. So now can you tell me who your OMWI Director is?

Secretary MNUCHIN. I can, and I want to thank you, because you did point this out to me. It's Lorraine Cole, and I meet with her on a monthly basis. I go through the reports. I appreciate the im-

portance of this and thank you for bringing this to my attention last year.

Mrs. BEATTY. Well, let me also say—and I would like to enter into the record that we requested the IG to take a look into your Department's compliance with Section 342 of the Dodd-Frank Act. It didn't come up so well.

When I read the report, the Inspector General found that the OMWI at your Department will not likely be able to fulfill its responsibility at the same level as the other OMWIs in the other regulatory offices because of insufficient staffing.

I asked the same question to the new Director of the CFPB last week and it is a yes-or-no question, will you put enough money in there to maintain Dr. Cole and to give her the appropriate staff as Section 342 states? It is a yes or a no, because right now we know it is saying you only have two people. We know that is not enough.

So are you going to put it up to a standard that I am going to let you determine, but a standard that won't be embarrassing to you or cause an issue when you come before my Diversity and Inclusion Subcommittee or back here?

Secretary MNUCHIN. I will commit to you to make sure that she thinks that she has enough staff.

Mrs. BEATTY. Okay. So the last question that I have is, are you aware of what the Inspector General's report stated? And do you have any idea of the diversity—if we are going to talk about growth and eliminating poverty and we are going to go into distressed communities, do you have any idea of what your Department looks like with women and minorities? And if not, you can send it to me in writing.

I only have a few seconds, so I am going to reclaim my time, because I would like to take my last few seconds to recognize the Honorable Jesse Jackson being in our hearing room, and quite appropriately today when we are talking about national issues. So thank you, Reverend Jackson, my friend, for being here.

My time is up.

I now recognize the gentleman from Indiana, Mr. Hollingsworth, for 5 minutes.

Mr. HOLLINGSWORTH. Good afternoon, Mr. Secretary. It is great to see you again. I appreciate the time that you have invested with us thus far.

Really, I know one of the things that we have worked on in last Congress and we continue to work on in this Congress on both sides of the aisle, but especially on this side of the aisle, is developing an ecosystem in terms of financial regulation, financial oversight, where every bank of all different sizes can participate and hopefully grow successfully, because ultimately them being able to grow successfully helps their communities grow successfully.

And I certainly believe in an ecosystem where everyone competes on a level playing field and everyone has the opportunity to compete for good business. But I hope that you might be able to speak, especially in advance of tomorrow, about how it serves American interests, and not only American corporate interests but sometimes American Government interests, in having super large banks headquartered here in the United States, having a financial system around the world that depends on the U.S. financial system, as



well, and how that empowers Treasury and how it empowers the American consumer and how it empowers American companies to have very large institutions that can serve the needs of very large American companies and serve the needs of American interests? And I wondered if you might be able to talk a little bit about that.

Secretary MNUCHIN. Well, I think it is important. I don't know about the words, "super large." I would say large, well-capitalized U.S. financial institutions are critical to the U.S. economy that have sufficient capital to be able to supply businesses both large and small and do global business. It is very important to the U.S. economy.

Mr. HOLLINGSWORTH. Right, and as you talked about earlier with regard to trade, Indiana has a very high percentage of its State's GDP is dependent on trade, and ever more important U.S. companies are competing, selling, importing, exporting abroad and it is really important that we have institutions that can do that kind of cross-border work.

And frankly, in their absence, other institutions would step in and do that work and perhaps they might be not headquartered in the United States. And so, it continues to be really important to me to ensure that we have an ecosystem where our large institutions can compete, as well.

And I wondered if you might also talk a little bit about the importance of even foreign-owned banks that operate and invest right here in the United States and how they have a role to play in that financial services ecosystem, as well.

Secretary MNUCHIN. Yes, we encourage a system where foreign banks can invest in the United States. We want to make sure that they are properly regulated, and they are properly capitalized.

Mr. HOLLINGSWORTH. Right.

Secretary MNUCHIN. But like any other type of investment, we encourage foreign companies or foreign individuals to invest in the United States.

Mr. HOLLINGSWORTH. All right, and as you say properly regulated and properly capitalized, I know that one of the concerning issues that we have had a few times that has come up here is just making sure that there is some parity between the two, right?

We don't want our foreign institutions to be advantaged in some way or disadvantaged in some way. We want them to be thoughtfully regulated, thoughtfully capitalized such that they can compete on that level playing field with U.S. firms so that hopefully the American consumer and American companies that are seeking to use them will face a competitive environment where they can get the best possible deal, right?

Secretary MNUCHIN. That is correct, a level playing field.

Mr. HOLLINGSWORTH. Great. Well, I am glad to hear that. So coming back to—I just want to touch on one other topic. It is important, as a part of Treasury's work, the sanctions, right? The financial restrictions the Treasury does is an important aspect of that.

And much of the strength of that comes from being a reserve currency, and the U.S. financial system being such a large part of the global financial system. And I wondered if you might talk about what threats there might be to that system and the architecture

of that system coming from some of our large counterpart countries?

Secretary MNUCHIN. Well, it is a tremendous benefit for us to be the reserve currency of the world, and it is a tremendous responsibility. And that is why when we look at sanctions, we have to take lots of different issues and into consideration, but there is no question that sanctions are effective because we are the reserve currency of the world. And for the U.S. financial system, it is of utmost importance for us to maintain that status.

Mr. HOLLINGSWORTH. Right, and those things, those policy threats that might imperil us being the reserve currency, imperil our financial system, restrict the ability of our financial system to reach and compete globally, those might adversely impact in the long run the efficacy of these sanctions and the United States being a leader and being able to conduct those operations around the world, right?

Secretary MNUCHIN. It would, and our ability to raise capital all over the world.

Mr. HOLLINGSWORTH. Right. Certainly, there are many challenges, but that is an important one that I think is frequently lost, that the efficacy of these sanctions programs depends on us continuing to be a capital market, continuing to be a financial services industry that competes around the world and has an ever larger presence around the world, so—

Secretary MNUCHIN. They are intricately linked, and I am glad you have pointed that out.

Mr. HOLLINGSWORTH. Thank you for the time today. I yield back.

Mrs. BEATTY. The gentleman from Washington, Mr. Heck, is recognized for 5 minutes.

Mr. HECK. Thank you, Madam Chairwoman. I would like to quickly follow up on some of the line of questioning of my friends, Mr. Stivers and Mr. Huizenga, regarding the Export-Import Bank.

First, to correct the record, the Bank was not, as indicated, established in 1945. It was established in 1934. It is celebrating its 85th year, but I quibble. The larger point, however, I would like to correct is the representation that it exists only to assist small businesses.

In fact, a simple reading of the history of the bank over 85 years is that it assists with export credit in three areas where the market is imperfect. The market is, indeed, imperfect in helping small businesses stand up sales to foreign countries. It is also imperfect in its sales to countries that are developing because banks don't have the international ability necessarily to collect within certain developing countries.

And, thirdly, banks are disinclined to engage in long-term financing for long-lived large-dollar items. So think massive earth-moving equipment by Caterpillar sold to some nation that is building highways. And it is in this regard that I think it is really important to clarify that even though Caterpillar, as an example, might be a very large business, Caterpillar's supply chain is made up of thousands and thousands of small businesses who are hurt by the fact that the bank does not have a quorum and, therefore, cannot approve deals above \$10 million.

So simply put, would you acknowledge that small businesses are being hurt by the absence of a quorum on the Export-Import Bank?

Secretary MNUCHIN. I would, and the \$10 million threshold is an awfully low threshold. So, I think we would agree that there are lots of small businesses, medium-sized businesses, and as you have pointed out, big businesses that do employ people with small business. And the purpose was not to displace private capital but, as you have pointed out, to assist where there is not private lending to facilitate trade.

Mr. HECK. Mr. Secretary, do you have any idea how much China's various export credit authorities have issued in loan guarantees or loans in the last 2 years?

Secretary MNUCHIN. It is enormous and multiples, multiples of anything we would do no matter what we ended up doing with the Export-Import Bank.

Mr. HECK. Would it surprise you to learn that they have issued more credit in the last 2 years than our Export-Import Bank has in its entire 85-year history?

Secretary MNUCHIN. That would not surprise me.

Mr. HECK. So would you acknowledge that in this era where China is emerging as clearly a highly competitive, long-term, strategic competitor that utilizes whole-of-government means to achieve their purposes, that we would be well-served by having a fully functioning Export-Import Bank as one of the arrows in our quiver in which to compete with them?

Secretary MNUCHIN. I can tell you that the President and I and others in the Administration think this is very important, and I would hope whatever issues there are, we can figure this out on a bipartisan business and whatever reforms. It is important from an economic standpoint to get the Ex-Im Bank back open, and that means loans above \$10 million.

Mr. HECK. Do you have any idea why we call it the Export-Import Bank when it doesn't do any import business whatsoever?

Secretary MNUCHIN. I'm sorry? What was that?

Mr. HECK. Do you have any idea why we call it the Export-Import Bank when it doesn't do any import business whatsoever?

Secretary MNUCHIN. I don't know the history of that.

Mr. HECK. So I want to shift to the proposal by the Administration to reform the Government-Sponsored Enterprises. The President has obviously directed you and Secretary Carson to come forth with a plan to reform Fannie Mae and Freddie Mac and also lay down some benchmarks by which that proposal would be measured.

I would like to respectfully suggest the addition of two more benchmarks. The first is predicated on the clear evidence that we have a shortage of homes in this country. As I indicated in an earlier subcommittee meeting, in the 1970s, we built 12,000 units for every million people in America, and now we are building 4,000 for every million.

Clearly, we have a shortage. That has been documented to be at least 1.5 million. And part of the solution to that, because we assess that construction financing sometimes gets pinched, not necessarily but sometimes consumer access to credit, the construction

financing gets pinched, would you support at least the current level of support by the GSEs of construction financing?

And secondly, as we or if we stand up a new GSE, would you commit to ensuring that smaller banks and credit unions have a means of laying off their mortgages so that they can compete effectively with larger banks who can create their own securitization market? Would you support those two benchmarks?

Secretary MNUCHIN. Well, I can assure you on the second benchmark, I completely support that and want to make sure there is a fair and level playing field. On the first benchmark, I am not expert enough on this, but we will reach out to your office. And as we put together a proposal, we will absolutely take into account your ideas.

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

Mrs. BEATTY. The gentleman's time has expired.

The gentleman from Wisconsin, Mr. Steil, is recognized for 5 minutes.

Mr. STEIL. Thank you. Thank you, Secretary Mnuchin, for being here. First question, kind of the role of large banks in our economy, the U.S. has a large and dynamic economy producing many globally successful companies. Businesses are world leaders in manufacturing, services, technology, and consumer goods. They create opportunities for workers, families, and downstream suppliers.

I experienced firsthand the impact that this can have on manufacturing in southeast Wisconsin on successful American business generating jobs, sustaining communities, and investing in innovation.

As you know, the U.S. is home to several large financial institutions that, among other things, provide the critical services to American companies engaged in global commerce that fulfill an important role in our financial system.

As I look at it—as the world's top 10 largest banks, four are Chinese, several others are European. And by my count, only a couple are U.S.-based. Does this matter? And what would happen to our economy if large, globally competitive banks are placed at a competitive disadvantage to our foreign banks?

Secretary MNUCHIN. I think it would be a very significant problem for the U.S. economy.

Mr. STEIL. In particular, as it relates to exports in the United States?

Secretary MNUCHIN. As it relates to everything, being competitive, having strong, well-capitalized, leading banks is very important to the structure of our overall economy and to us being competitive throughout the world.

Mr. STEIL. Thank you. I am going to shift tactics to illicit finance and human trafficking, which is something that is important to me. According to the latest estimates, more than 40 million people around the world are subjected to human trafficking. Many are trapped in forced labor, or are sexually exploited. Research estimates that 25 percent of these people are children, and 75 percent are women and girls. It is a terrible crime. And regardless of party geography, we have to be committed to stopping this.

But unfortunately, it is also big business, and that means we need to target the financial crimes associated with this, and the ill-

gotten profits from human trafficking, which is why I introduced a bill earlier today that would require our government to hold countries accountable that turn a blind eye to illicit financial activity with regards to human trafficking. What can the Treasury Department do to prevent human trafficking and their associates from abusing the U.S. financial system to facilitate their crimes?

Secretary MNUCHIN. Well, we have the proper intelligence in working with the State Department. We have many sanctions authorities that we can utilize and we go after for these issues. And I am not familiar with your bill, but we look forward to learning about it.

Mr. STEIL. I appreciate you taking the time today. I yield back.

Mrs. BEATTY. The gentleman yields back. The gentleman from Guam, Mr. San Nicolas, is recognized for 5 minutes.

Mr. SAN NICOLAS. Thank you, Madam Chairwoman. And thank you, Mr. Secretary, for being with us this afternoon. I wanted to have a conversation about the earned income tax credit and how it creates a unique liability for the Treasury. The earned income tax credit, for an EITC taxpayer, the difference between their income tax refund and their income tax withholdings is a Treasury liability. Is that correct?

Secretary MNUCHIN. I believe that is the case, but now we are into an accounting issue—

Mr. SAN NICOLAS. Right, right. Basically, they earn X amount, X amount is withheld, if the refund exceeds what is withheld, that is actually a Treasury liability that the Treasury has to pay out. Is that correct?

Secretary MNUCHIN. I want to make sure I am following your technical issue. There are withholding taxes. There is the EITC. Okay. I think what you are saying is, definitionally—I don't—I am not sure. I can check. I don't believe we record that as a liability on our books and records, but I will check that and get back to you.

Mr. SAN NICOLAS. Well, what I mean by liability is that the Treasury is responsible for paying out the earned income tax credit, if there is no withholding sufficient to pay it—to fund it.

Secretary MNUCHIN. The Treasury is responsible for paying out the EITC. That is correct.

Mr. SAN NICOLAS. Does the Treasury fund this liability by diverting funds from education, health, or public safety?

Secretary MNUCHIN. The Treasury funds everything, okay, on a general basis. There are no specific allocations from one program to any other program.

Mr. SAN NICOLAS. And so, again, just to reiterate, the Treasury is responsible for funding the earned income tax credit?

Secretary MNUCHIN. The Treasury is responsible for disbursing the earned income tax credit. The U.S. Government is responsible for funding it.

Mr. SAN NICOLAS. Well, I am glad we have this on the record, Mr. Secretary, because I am a delegate from Guam. And since 2008, Guam has been absorbing 100 percent of the earned income tax credit payouts that have been filed from our taxpayers in the Territory. And this sum has actually ballooned to account for over 50 percent of the annual set-aside that we have for tax refunds altogether.

And so, what I am really hoping, especially with tax season in full gear, is that we can have the Treasury work with the Guam Department of Revenue and Taxation to figure out what earned income tax credit amounts the Treasury should be paying for the taxpayers on Guam who are claiming this credit.

And I want to just put on the record, also, Mr. Secretary, that this is not something new. The Treasury has, for years, already been paying out the additional child tax credit on Guam. And so, in order for us to be consistent with the Treasury funding the ACTC, I humbly ask that Treasury also do its part to fund the EITC on Guam.

And this is very critical, Mr. Secretary, for a variety of reasons. One of them is the fact that, with poverty rates so high on Guam, the diversion of general fund coffers in the Territory of Guam, to fund the EITC payouts, impacts education and it impacts health and it impacts public safety. And those diversions also result in deficits to the territory, because we are having to pull other tax resources that would have otherwise been used to meet our appropriations projections.

And so I think that the time has come for us to have the conversation of not only having the Treasury fund the EITC on Guam going forward, but I would deeply appreciate if the Treasury can also work with the Government of Guam to reconcile all of the earned income tax credits that have been paid out since 2008 so we can recover those funds, because it has resulted in deficits, it has resulted in debt, and it has resulted in deferred maintenance.

We don't even have textbooks in our public schools that are within the reasonable 7-year age of the textbooks. There are so many fund diversions going on in the territory, and this ETIC liability of \$56 million a year accounts for a significant chunk of that. So I appreciate your forthrightness in answering my questions with respect to who is responsible for paying that. And I look forward to the Treasury working with the Territory of Guam in making the territory whole.

Secretary MNUCHIN. And let me just comment, I am aware that Guam has some highly technical tax issues. I actually met with the Governor the last time he was here, with the Office of Tax Policy. We would be happy for you to come in, also, on this. So please follow up with my office on these specific issues. I know there is this and a bunch of other technical issues we have been trying to help on.

Mr. SAN NICOLAS. I just want to zero in on this. Thank you, Mr. Secretary. I yield back.

Mrs. BEATTY. The gentleman from Kentucky, Mr. Barr, is recognized for 5 minutes.

Mr. BARR. Thank you, Madam Chairwoman.

Mr. Secretary, in the last Congress, I was pleased to Chair the subcommittee that oversaw the development of the Foreign Investment Risk Review Modernization Act, or FIRRMA. I appreciate your support of that effort. I later served on the conference committee that negotiated the FIRRMA provisions that the President signed into law.

This committee's leadership has been united in its prioritization of FIRRMA rulemaking. And I would ask for unanimous consent to

enter into the record a letter that I co-signed with Chairwoman Waters, former Chairman Hensarling, and the former subcommittee ranking member, Gwen Moore, detailing congressional intent behind some of FIRRMA's provisions.

Mrs. BEATTY. Without objection, it is so ordered.

Mr. BARR. Thank you. And Mr. Secretary, I have a few questions for you on the status of the current rulemaking processes. FIRRMA requires CFIUS to narrow its scope for certain transactions to particular countries. While CFIUS has some discretion on which countries it targets, clearly, Congress wanted to see China taken seriously. How will you go about ensuring that China and other bad actors are the focus of the rulemaking and not U.S. allies such as Canada, Japan, Israel, and our partners in Europe?

Secretary MNUCHIN. Well, first of all, we are very much supportive of the legislation, thank you. This is a priority of ours, executing it. I can assure you we are not just focused on China, we are focused on other countries as well, and we look forward to working with you. I think the regulations will be clear as we roll this out, the pilot in the full-time, that we want to encourage investment, we don't want to discourage investment, but this is about protecting national security interests.

Mr. BARR. Great, and thank you for balancing those interests, including maintaining an open investment climate. I was pleased to see that the President's budget contained significantly more resources for CFIUS operations. CFIUS is a national security function, and Congress should fund it appropriately.

Does the President's expanded request to Congress mean that you currently don't see a need to impose filing fees?

Secretary MNUCHIN. No. We anticipate there will be filing fees, as well.

Mr. BARR. But nothing more than what is contemplated in FIRRMA?

Secretary MNUCHIN. Nothing that is—I believe it is in our budget, it takes into account the new filing fees, but we will follow up with your office on it.

Mr. BARR. Thank you.

Secretary MNUCHIN. I think you will find that the filing fees will be reasonable.

Mr. BARR. Thank you. And Mr. Secretary, I was encouraged to see the Administration announce its designation of the Islamic Revolutionary Guard Corps (IRGC) as a foreign terrorist organization.

The IRGC and the Quds Force have been responsible for the deaths of numerous Americans abroad and were even behind the planning of an attempted bombing attack right here in our nation's capital. In what ways will this designation restrict IRGC financial activity that previous Executive Orders and the Countering America's Adversaries Through Sanctions Act did not? And what role will Treasury have in these restrictions?

Secretary MNUCHIN. Well, Treasury has been very involved with the State Department on this on an interagency basis. It is something that we think is very important. From a financial standpoint, we have already had financial sanctions in place. This puts in other restrictions to restrict people both in entering the country and

doing business and other things. So this is even stronger sanctions that would be in place.

Mr. BARR. Well, I applaud the Administration's designation, and I know Treasury is going to have an important role to play in implementation. Finally, you had mentioned your interest in commenting on the leverage loan issue. Obviously, leverage lending is increasing, 75 percent, I think is estimated through non-bank firms.

But as I understand it, nearly 70 percent of U.S. companies are not investment grade, and aren't leverage loans simply loans to well-known, non-investment grade companies like Dell, American Airlines, Burger King, CableVision, Sprint, and Hilton Hotels, that permit these companies to grow, thrive, and hire American workers? And if these loans were shut off, wouldn't it be very bad for the companies and their employees along with the broader U.S. economy?

Secretary MNUCHIN. That is true, leverage lending is a very important part of the economy. We are working at FSOC and studying the leveraged lending issue. Just because people have raised this to make sure there are no problems, but it is something we are on top of.

Mr. BARR. And I know you recognize that if the economy does have a downturn, prices will drop, and certain types of high-yield debt will be difficult to refinance, but in a November 2018 speech referring to elevated business bankruptcies and outsized losses, Fed Chairman Powell said, "Such losses are unlikely to pose a threat to the safety and soundness of institutions at the core of the system, and are likely to fall on investment vehicles like CLOs with stable funding that present little threat of damaging fire sales."

Given that CLOs provide long-term capital, and are not subject to the short-term redemptions or outflows we have seen in retail and institutional credit products, do you believe, unlike some of the current rhetoric in Washington today, that CLOs can represent a vital source of liquidity to the below investment-grade companies?

Secretary MNUCHIN. I do, indeed, and that is one of the reasons we are comfortable. A lot of the capital has moved out of the regulated banking sector into CLOs which are permanent capital vehicles.

Mr. BARR. Right, and they have performed very well over their 30-year history, including during the financial crisis.

Mrs. BEATTY. The gentleman's time has expired.

Mr. BARR. I yield back.

Mrs. BEATTY. The gentleman from Illinois, Mr. Casten, is recognized for 5 minutes.

Secretary MNUCHIN. Madam Chairwoman, excuse me for one second, I don't mean to be disrespectful, but we had an agreement that I was going to leave here at 5 o'clock. I have a very significant bilateral. It would be embarrassing to be late.

Now, I will tell you, in the last 6 years, there has never been a Secretary of the Treasury who sat for more than 3 hours and 15 minutes, so as a courtesy, I am happy to stay until 5:15, but it would be very embarrassing to a foreign government if this committee expected me to not show up for that meeting.



Mrs. BEATTY. Mr. Secretary, I thank you for that, but if we still have Members here with questions, and we have Members on both sides who too have prepared for these questions, would you be willing to come back to the committee in May?

Secretary MNUCHIN. I am always be willing to come back to the committee. I look forward to working with Chairwoman Waters on an appropriate time to make—

Mrs. BEATTY. So you would commit to coming back in May?

Secretary MNUCHIN. Absolutely, I want to make sure the committee always has time to get answers to all of their questions.

Mrs. BEATTY. Okay, thank you.

Secretary MNUCHIN. If I am going to come back, though, I would propose that we could break, so I am not late for this meeting.

Mrs. BEATTY. And if we continue and stop at your deadline, and we need more than one additional hearing, would you commit to coming back at least twice?

Secretary MNUCHIN. I would do what previous Secretaries have done. I can't see why it is not sufficient to come back. But again, as opposed to trying to negotiate this in this format, I have every aspect—I would like to have a good working relationship with the committee, and I look forward to answering all of your questions.

Mrs. BEATTY. Thank you. The gentleman from Illinois, Mr. Casten, is recognized for 5 minutes.

Mr. MCHENRY. Madam Chairwoman—

Mr. CASTEN. Thank you—

Mr. MCHENRY. Madam Chairwoman, inquiry of the Chair. At this point, there are equal numbers of questions asked by Republicans and Democrats, so if we are going to adjourn in 5 minutes, we need to divide this remaining time between Republicans and Democrats, just to be fair, under our committee rules.

Mrs. BEATTY. I have no problem with that. We have been doing that the entire time, going from Democrats—

Mr. MCHENRY. It is 5:10, and so 5 more minutes is taken, and then the Secretary has to leave in 5 minutes—

Mrs. BEATTY. So then, a question will go to the Secretary to stay for one Democrat and one Republican. The gentleman from Illinois, Mr. Casten, is recognized for 5 minutes.

Mr. CASTEN. Thank you, Madam Chairwoman, and thank you, Mr. Mnuchin. I will try to be quick to respect your time. Would you support a United States return to the gold standard?

Secretary MNUCHIN. I would not.

Mr. CASTEN. Good. Do you agree with the President's recent call for a renewal of quantitative easing?

Secretary MNUCHIN. I'm sorry, I didn't hear your question.

Mr. CASTEN. Do you agree with the President's recent suggestions that we should renew quantitative easing?

Secretary MNUCHIN. In my role as Treasury Secretary, it would be inappropriate for me to make specific comments on what the Federal Reserve should or shouldn't do.

Mr. CASTEN. Okay. From significantly expanded deficit spending, to significantly expanded borrowing, we are pursuing a very expansionary policy since the 2015 tax cuts, in spite of rising GDP and falling unemployment. As a general matter, do you support the pro-

rather than countercyclical fiscal policy we have been pursuing relative to the larger economy?

Secretary MNUCHIN. I don't think you can put all fiscal policy the same. I support the tax cuts, and I stand by—I think this will create growth that will pay for it. But we also had significant government spending on top of that, and we have to be careful, because we can't spend the money twice.

Mr. CASTEN. Okay. The reason for my question is that, I think this morning, the IMF cut the global growth outlook to the lowest level since the crisis. Domestically, we are seeing an inversion from the 3 month of the 10-year Treasury bonds, we are looking at an inverted yield curve. How concerned should we be that we are approaching the next downturn?

Secretary MNUCHIN. First of all, there is no question that growth outside of the United States, whether it be in Europe or China, has slowed significantly. As it relates to the inverted yield curve, I am not particularly concerned about the inverted yield curve at all, and from everything we see, we see for the next 2 years, still very strong, robust U.S. growth.

Mr. CASTEN. Well, I certainly hope you are right. I think I have yet to see a downturn that people predicted at the right moment. If we could, we would all be wealthy by now. If it comes, here is my concern. In the last downturn, we had the tremendous good fortune to have exceptionally competent policy-driven technocrats at the helm, from Mr. Bernanke, to Mr. Paulson, to Mr. Geithner. These men were uniquely suited to the moment, and I think we can second-guess them, but they did pretty well under the circumstances.

President Trump has, to put it mildly, not proven himself capable of attracting or retaining people of that caliber. And I want to be clear, I do not put you in that category. You are an extremely smart guy, and your resume qualifies you for this.

But I do have real concerns, given some of his recent suggested nominees to various Federal Reserve posts, who might have answered some of these questions differently than you have, that when the next downturn comes, we are not going to have people with the skills necessary to handle it, and certainly without the trust of the markets that prior generation had.

Now, I am not going to ask you whether you agree with that, it would be an awkward question for you, I suspect, given your background. You may hear some of those concerns at night. My question for you as the Congress, given that potential and given your experience and wisdom, how would you advise we hedge against that future risk?

Secretary MNUCHIN. Well, I don't agree with you at all. I have a lot of confidence in the economic team that we have, whether it is with the regulators or whether it is in the Commerce Department, in the Trade Department, Larry Kudlow in the White House. I think we have as robust an economic team as we have had in previous eras, and I am glad you liked these previous people. I worked for Secretary Paulson for a long period of time, and I understand that.

Mr. CASTEN. Well, I guess my concern is, as much—I mean, the President keeps sycophants and family members around him.

There is a lot of turnover in the rest. And I am as concerned about the trust that financial markets will have for those individuals putting policy first as their basic skills. And that is the concern that I feel we have to hedge against.

Secretary MNUCHIN. Is there a question I am supposed to answer on that?

Mr. CASTEN. I think with respect to your tight time, I will yield back the balance of my time.

Chairwoman WATERS. The gentleman from Georgia, Mr. Loudermilk, is recognized for 5 minutes.

Mr. LOUDERMILK. Thank you, Madam Chairwoman. Mr. Secretary, thank you, I will be very conscious of your time. Even though I am a Member of Congress, I am also an American citizen, and I think it is very important that we put the best light of our nation with the rest of the world, especially with foreign leaders.

So I have a whole suite of questions, but I am just going to narrow it down to one. Four years ago, the National Association of Registered Agents and Brokers (NARB) Act was signed into law, and it is going to be stood up at the Treasury Department.

But what is holding it back is that we haven't nominated a board of directors yet to be confirmed by the Senate. They haven't been appointed. I am leading a bipartisan, bicameral letter to the President. Several have signed onto it, expressing the urgency to go ahead and move forward. I know that you have submitted some names. My question is, can you please pass along to the President the urgency of getting this moved forward?

Secretary MNUCHIN. I will.

Mr. LOUDERMILK. Thank you, Mr. Secretary. I yield back the balance of my time.

Chairwoman WATERS. Mr. Secretary, if I may, you had indicated that you would like to have a press conference in this room following—

Secretary MNUCHIN. I am going to cancel that. I don't have time for that, so I am going—

Chairwoman WATERS. Well, that is what I was going to ask you, if you would, instead of having the press conference, continue with those Members who have been waiting here for so long. And I think what I thought I originally heard was 5:30, rather than 5:15. So is it possible you can give us another 15 minutes to get to these Members—

Secretary MNUCHIN. No, I have a foreign leader waiting in my office at 5:30, okay? I agreed to stay longer—it will be embarrassing if I keep this person waiting for a long period of time. I wasn't going to have a press conference; I was going to have a short press gaggle. I am not going to do that now.

And I have assured you that I am happy to come back here and answer more of your questions. I respect the committee and we want to have a good working relationship with you. So I hope you will understand that I am already going to be late for my 5:30—

Chairwoman WATERS. I do understand. We are late all the time, unfortunately. We are all pressed for time, and I do get it. However, I think I indicated early on that we would request or require that you come back at least 2 more times in the month of May. Is that something you are agreeing to?

Secretary MNUCHIN. No, Madam Chairwoman, I find this to be—you know, every single time Jack Lew and other Secretaries came here, there has never been anybody who has been here more than 3 hours and 15 minutes. I have sat here for over 3 hours and 15 minutes, I have told you I will come back. I just don't believe we are sitting here negotiating when I will come back. We will follow up with your office. How long would you like me to come back for next time? I have told you I will accommodate you.

Chairwoman WATERS. I appreciate that, and I appreciate your reminding us of the length of time other Secretaries have been here. This is a new way and it is a new day and it is a new Chair, and I have the gavel at this point. If you wish to leave, you may.

Secretary MNUCHIN. Can you clarify that for me?

Chairwoman WATERS. If you wish to leave, you may.

Secretary MNUCHIN. Okay. So, we are dismissed. Is that correct?

Chairwoman WATERS. If you wish to leave, you may leave.

Secretary MNUCHIN. I don't understand what you are saying.

Chairwoman WATERS. You are wasting your time. Remember, you have a foreign dignitary in your office.

Secretary MNUCHIN. I would just say that the previous Administration—when the Republicans—they did not treat the Secretary of the Treasury this way. So if this is the way you want to treat me, then I will re-think whether I voluntarily come back here to testify, which I have offered to do.

Chairwoman WATERS. Mr. Secretary, I want you to know that no other Secretary has ever told us the day before that they were going to limit their time in the way that you are doing. So if you want to use them as examples, you have acted differently than they have acted. And as I have said, if you wish to leave, you may.

Secretary MNUCHIN. If you wish to keep me here so that I don't have my important meeting and continue to grill me, then we can do that. I will cancel my meeting and I will not be back here. I will be very clear, if that is the way you would like to have this relationship.

Chairwoman WATERS. Thank you.

The gentleman, the Secretary has agreed to stay to hear all of the rest of the Members. Please cancel your meeting and respect our time.

Secretary MNUCHIN. Okay. So just let's be clear to the press. I am canceling—

Chairwoman WATERS. Who is next on the list?

Secretary MNUCHIN. I am canceling my foreign meeting. You are instructing me to stay here and I should cancel my foreign meeting.

Chairwoman WATERS. No. You just made me an offer.

Secretary MNUCHIN. No, I didn't make you an offer.

Chairwoman WATERS. You made me an offer that I accepted.

Secretary MNUCHIN. I did not make you an offer. Let's be clear. You are instructing me—you are ordering me to stay here.

Chairwoman WATERS. No, I am not ordering you. I am responding. I said you may leave any time you want. And you said, okay. If that is what you want to do, I will cancel my appointment, and I will stay here, so I am responding to your request.

If that is what you want to do—

Secretary MNUCHIN. That is not what I want to do. I told you—

Chairwoman WATERS. What would you like to do?

Secretary MNUCHIN. What I have told you is I thought it was respectful that you would let me leave at 5:15—

Chairwoman WATERS. You are free to leave any time you want.

Secretary MNUCHIN. Which is the current period of time.

Chairwoman WATERS. You may go anytime you want.

Secretary MNUCHIN. Okay. Well, then, please dismiss everybody. I believe you are supposed to take the gavel and bang it. That is the appropriate—

Chairwoman WATERS. Please do not instruct me as to how I am to conduct this committee. The time belongs to the Chair. Who is next?

The gentlewoman from Pennsylvania, Ms. Dean, is recognized for 5 minutes.

Ms. DEAN. Thank you, Madam Chairwoman, and thank you, Mr. Secretary. I am not sure the Secretary has the attention right now. Mr. Secretary?

Secretary MNUCHIN. Okay. So I have just been advised that I am under no obligation to stay; I am here voluntarily. I will leave at 5:30, which is going to make me already 20 minutes late, so I am happy to listen for another 10 minutes, and then I will—

Chairwoman WATERS. Thank you. Ms. Dean, would you proceed?

Secretary MNUCHIN. And I have withdrawn my offer to voluntarily come back. We can follow up if that is appropriate or not.

Chairwoman WATERS. You may choose to do whatever you want.

Ms. Dean, it is your time now, please proceed.

Ms. DEAN. Thank you for restoring the clock, also. Mr. Secretary, how do you do? Good. And I am disappointed to hear you threaten not to come back. That isn't really what we hope of our cabinet officials in this Administration or any other Administration, so thank you for staying on.

Who is the foreign dignitary that you are meeting with?

Secretary MNUCHIN. I am meeting with a very senior person from Bahrain who is here to talk about national security issues and sanctions.

Ms. DEAN. Thank you.

Maybe you heard this, but last week NATO General Secretary was before a joint session of Congress and he gave a beautiful, stirring speech. His concerns regarding Russia were the following.

In 2014, Russia illegally annexed Crimea, the first time in Europe that one country has taken part of another by force since World War II. He said that we see this as “a pattern of Russian behavior including a massive military build up from the Arctic to the Mediterranean, from the Black Sea to the Baltic. The use of the military grade nerve agent in the United Kingdom, support for Assad’s murderous regime in Syria, consistent cyber attacks on NATO allies and partners targeting everything from power grids, sophisticated disinformation campaigns, and attempts to interfere in democracy itself.”

Did you have a chance to hear his speech?

Secretary MNUCHIN. I didn’t, but at your recommendation, I will get a copy of it and read it.

Ms. DEAN. It is beautiful, and he prefaced it and ended it with, "It is good to have friends." And he was really recalling the history of NATO and the partnership of 70 years among nations there and he ended it with, "It is good to have friends." In the middle he implied, or at least I inferred, that it is also good to know who your friends are not in this world.

And with that history of what has been going on with Russian aggression, I am puzzled how it was that you decided to de-list three sanctioned Russian companies with, I guess, majority ownership by Deripaska. What was your decision for de-listing them from sanctions?

Secretary MNUCHIN. Sure. Well, thank you for raising that, because it is a very important issue. First of all, the important issue is we decided to sanction the companies, and I think in particular you are talking about Rusal and the related entities. They were all a group of entities. And we did that under the various different authorities that we had.

Ms. DEAN. Why did you de-list them? I just—I don't want to go the whole history. Why did you de-list them?

Secretary MNUCHIN. We de-listed them because the company approached us, not the oligarch, the company approached us. A large group of people, including our current people, negotiated an agreement—

Ms. DEAN. Was the company majority controlled by the oligarch?

Secretary MNUCHIN. And it is no longer majority controlled by him.

Ms. DEAN. He now has what percentage ownership?

Secretary MNUCHIN. He and related entities have a 45 percent ownership and a 35 percent vote.

Ms. DEAN. And he shed some ownership to whom?

Secretary MNUCHIN. Various different entities.

Ms. DEAN. Who?

Secretary MNUCHIN. Again, I am happy to—

Ms. DEAN. Any family members? Any related members?

Secretary MNUCHIN. Again, if you are referring to—there were shares transferred to his children pursuant to a divorce decree that he was legally bound to do.

Ms. DEAN. So he retains 45 percent ownership, his children got other shares, so likely among the family they have more than a majority of ownership?

Secretary MNUCHIN. No. They don't have more than a majority in the family.

Ms. DEAN. But we don't know that for sure. Are you able to provide us that full detailing?

Secretary MNUCHIN. I believe on a confidential basis we would be more than happy to give you all those details.

Ms. DEAN. Okay. Speaking of conflicts of interest, when did you take the position of Secretary?

Secretary MNUCHIN. I believe it was February 13th.

Ms. DEAN. Of 2017?

Secretary MNUCHIN. That is correct.

Ms. DEAN. And you sold a company that you owned to your then-fiancee, now wife, is that correct?

Secretary MNUCHIN. That is correct. And that was fully approved by the Ethics Department of the Treasury.

Ms. DEAN. And that took place when?

Secretary MNUCHIN. I don't have the exact date, but I can—

Ms. DEAN. After you assumed the secretaryship?

Secretary MNUCHIN. Yes. But that was in my ethics agreement, I was given a certain amount of time to sell assets. That was appropriate, which I did.

Ms. DEAN. But you thought it appropriate to sell to your fiancée, now wife? That would clear you of any conflict of interest?

Secretary MNUCHIN. Again, just to be clear, okay, that transaction was fully vetted and fully approved and consistent with the ethics department.

Ms. DEAN. What questions did you ask of ethics counsel surrounding that transaction?

Secretary MNUCHIN. I asked extensive questions both internally to our designated ethics adviser as well as outside counsel I had. I wanted to make sure I was fully in compliance.

Ms. DEAN. Because you were concerned about a conflict of interest or the appearance of a conflict of interest?

Secretary MNUCHIN. No. Not because I was concerned with—I was never concerned about a conflict of interest. Quite frankly, I don't think I should have had to sell it, but I agreed to comply with what was the decision of the OGE.

Ms. DEAN. Why did they tell you that you needed to sell it?

Secretary MNUCHIN. I don't know, again—

Ms. DEAN. You took on that transaction, divested yourself of the ownership, although your wife owns it, and you don't know why they recommended that that was what you needed to do?

Secretary MNUCHIN. Again, I want to just be clear. I divested virtually every single asset that I owned. And again, as part of the agreement I entered into, I agreed to sell the asset. I was fully compliant when I sold it to my fiancée.

Ms. DEAN. I just see a strange parallel here.

Chairwoman WATERS. The gentleman from Tennessee, Mr. Rose, is recognized for the rest of the time between now and 5:30 when the Secretary will be leaving.

Mr. ROSE. Thank you, Secretary Mnuchin, for being with us today and for being so generous with your time. I would like to yield 30 seconds of my time to Mr. King.

Mr. KING. Thank you. Thank you for that. Mr. Secretary, in respect to your time, I will just take 5 seconds to say I will submit every question to you if okay with you regarding CFIUS and China. And with that, I yield back to the gentleman.

Mr. ROSE. Thank you, Mr. King. The FSOC annual report has previously stated that the Council reaffirms its view that housing finance reform legislation is needed to create a more sustainable system.

The White House recently issued a memo, as you know, on housing finance reform on March 29th outlining a number of initiatives. Mr. Secretary, I understand you cannot go into the weeds too much and tell me more about Treasury's views at a high level of what housing reform should look like. But could you give me some guid-

ance as to what you believe and Treasury believes housing reforms should look like?

Secretary MNUCHIN. Absolutely. And this is an area I have been involved with for over 30 years. It is something I have talked about and I believe that it should be twofold. So, one, as it relates to the GSEs, we should have a system where taxpayers are not at risk.

We want a robust system where people can access mortgage capital, 30-year mortgages, but not put taxpayers at risk. And the reason why we are focused on housing reform and not just GSE reform is we want to make sure that we don't take the risk out of Fannie Mae and Freddie Mac and put it all at FHA and transfer it to taxpayers in another bucket.

So this is something I really hope we can work on a bipartisan basis. I have said my first choice is to do legislation with Congress, and I hope we can do something quickly this year.

Mr. ROSE. Thank you. I appreciate your interest in making housing finance reform a priority. While the last Administration did express some interest in the issue, they did not provide the leadership necessary to get reform over the finish line. And your leadership makes me optimistic that this will get done.

In the interest of time, Madam Chairwoman, I ask unanimous consent to submit to the record a list of previous appearances by Treasury Secretaries along with the time that they gave—

Chairwoman WATERS. Without objection, it is so ordered. Thank you very much.

Mr. ROSE. I yield back.

Chairwoman WATERS. Mr. Secretary, thank you for staying until 5:30. Without objection, all Members will have 5 legislative days within which to submit additional written questions to the Chair, which will be forwarded to the Secretary for his response.

And I ask the Secretary to please respond as promptly as you are able. And I expect the Secretary to honor our invitation to return, so that the rest of these Members will have an opportunity to pursue their questions.

So without objection, all members will have 5 legislative days within which to submit extraneous material to the Chair for inclusion in this record.

Secretary MNUCHIN. Thank you, and I look forward to being back in May. We will work on a date.

Chairwoman WATERS. Thank you very much.

Secretary MNUCHIN. Thank you very much. I appreciate it.

Chairwoman WATERS. The hearing is adjourned.

[Whereupon, at 5:31 p.m., the hearing was adjourned.]



**THE ANNUAL TESTIMONY OF THE  
SECRETARY OF THE TREASURY  
ON THE STATE OF THE  
INTERNATIONAL FINANCIAL  
SYSTEM—PART II**

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**Wednesday, May 22, 2019**

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

The committee met, pursuant to notice, at 8:34 a.m., in room 2128, Rayburn House Office Building, Hon. Maxine Waters [chairwoman of the committee] presiding.

Members present: Representatives Waters, Maloney, Green, Cleaver, Perlmutter, Himes, Foster, Beatty, Vargas, Gottheimer, Gonzalez of Texas, San Nicolas, Tlaib, Porter, Axne, Pressley, McAdams, Wexton, Lynch, Adams, Dean, Garcia of Illinois, Garcia of Texas, Phillips; McHenry, Wagner, Lucas, Tipton, Hill, Emmer, Zeldin, Loudermilk, Budd, Kustoff, Rose, Gooden, and Riggleman.

Chairwoman WATERS. The Financial Services Committee will come to order.

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

This is part two of the committee's hearing on the annual testimony of the Secretary of the Treasury on the state of the international financial system, part one of which convened on April 9, 2019. As agreed with the ranking member, without objection, this hearing is deemed a continuation of that hearing, and we will go to Members who did not have the opportunity to question the witness on April 9th.

We have the Secretary until 10:45 this morning, which accounts for our early start today.

The gentleman from New Jersey, Mr. Gottheimer, is recognized for 5 minutes.

Mr. GOTTHEIMER. Thank you, Mr. Secretary, for being here this morning.

The recent tax hike bill had a devastating impact on my district, the Fifth District of New Jersey, gutting the State and local tax deduction, better known as SALT, sharply limiting New Jersey's property tax deductions, and imposing a massive tax hike on New Jersey's families and businesses.

Last year, I worked with New Jersey officials on legislation to provide real tax relief for my constituents via tax credits for charitable contributions to our towns.

After New Jersey passed the law, the IRS, without any legislative basis, against legal precedent and decades of previous IRS approvals, issued provisional rules that would severely limit New Jersey's ability to offer tax relief through the charitable deduction, undermining New Jersey's new law allowing our towns to use it. And it also hurt, as you probably know, 33 other States like Alabama,

Georgia, and South Carolina that have been using the charitable provision for decades now.

It is not a red State or blue State issue, Mr. Secretary. But I really believe that Congress didn't give you or the IRS permission to interpret the new tax law as they see fit. These rules are still provisional. I am just asking if you have a status update for us on the limits on the charitable tax deduction for these purposes?

Secretary MNUCHIN. Well, first of all, let me just say, I do appreciate it, as the SALT deduction is having an impact on some of the economies, and we are monitoring that carefully. We did allow for a deduction that did cover a very significant amount of the people.

As it relates to the charitable deduction, this Administration very much supports charitable deductions, as does the Department. I think the issue that you are referring to is that there are no limits on charitable deductions where there is not a quid pro quo attached. The question I think you are referring to is where certain States tried to get around the Federal law by passing certain laws, and I understand that is still under further review by the IRS and our legal department.

Mr. GOTTHEIMER. What about the 33 States that have been using this for decades now? Should they have to stop immediately?

Secretary MNUCHIN. Well, again, we have spent a lot of time on this guidance. We are trying to make sure that the legitimate use of tax credits is still allowed. I believe the guidance is still under review, and we are happy to follow up with your office.

Mr. GOTTHEIMER. Do you have a sense of timing on when those rules will go final?

Secretary MNUCHIN. I think it is going to be out shortly. It is a priority of ours. Again, we want to make sure that legitimate use of charitable contributions is supported.

Mr. GOTTHEIMER. I know you were very involved personally, which is a little unusual, in the approval process of these guidelines. Why did you feel a need to get personally involved in these particular ones? I know most you don't, right?

Secretary MNUCHIN. No, actually, that is not the case. We meet almost daily with a team at Treasury, Office of Tax Policy, General Counsel, all of our areas, and we review, actually, every single regulation. I think it is my obligation, given the complexity of these issues, to make sure that I am briefed on them.

Mr. GOTTHEIMER. Okay.

Secretary MNUCHIN. So this issue is no different than others.

Mr. GOTTHEIMER. Thank you.

On SALT for a second, you advocated for SALT cuts by saying they "predominantly benefited high-income earners to help pay for major tax cuts for American families" and estimated that, "approximately 5 percent of taxpayers will itemize and have State and local income tax deductions above the SALT cap."

In my State, in New Jersey, 42.75 percent, not 5 percent, of taxpayers in the Fifth District, or approximately 359,000 people in the 4 counties I represent, actually claimed a SALT deduction. That is far from 5 percent. In fact, the average in Bergen County, one of my counties, is \$24,783.

After hearing the impact and reviewing this tax season, do you have a different view at all on these claims of what you originally said, sir?

Secretary MNUCHIN. Well, we are monitoring it carefully. I would comment that there are a lot of people with SALT deductions who do have AMT relief. I do think it does hit the high end of taxpayers significantly. But we are monitoring the impact on these economies and watching it carefully.

Mr. GOTTHEIMER. Thank you, sir.

In the remaining time, if I can quickly ask you an Iran question, last November, the full set of sanctions waived under the 2015 nuclear deal with Iran came back into effect. What impact do you see these newly imposed sanctions having, and where do you see issues with compliance?

Secretary MNUCHIN. I see these new sanctions being very impactful. They are having the impact that we want, which is absolutely limiting the amount of money that is going to Iran that is used for terrorist activities, that is used for military purposes. And we are very pleased with the progress and the enforcement of these sanctions. So it is something we are monitoring very carefully.

Mr. GOTTHEIMER. Thank you very much for your time, sir.

Thank you. I yield back.

Chairwoman WATERS. The gentleman from Tennessee, Mr. Kustoff, is recognized for 5 minutes.

Mr. KUSTOFF. Thank you, Madam Chairwoman, for convening this morning's hearing.

And, Mr. Secretary, thank you for coming back this morning.

Back in November, ahead of the G20 summit, you released a statement regarding the U.S.-Mexico-Canada trade agreement, and I appreciate you doing that.

Two questions. As you know, Congress is faced with passing or not passing the U.S.-Mexico-Canada trade agreement. First question: Can you address what happens to the economy if in fact we do pass the USMCA? Second question: Can you address the effects on the economy if we don't pass the USMCA?

Secretary MNUCHIN. Sure.

Well, I am hopeful that Congress takes this up soon. I know Ambassador Lighthizer has had productive discussions with the Speaker on this. Because I think it has a very important economic impact, I think it has been estimated, anywhere between 30 and 100 basis points in terms of GDP, which is a very big number.

These are two of our largest trading partners. This has a lot of support from the Governors, has a lot of bipartisan support from businesses. So the impact is quite significant. And I am pleased that we have reached an agreement with Canada and Mexico on steel and aluminum tariffs, which, again, is another reason to move forward with the agreement quickly.

Mr. KUSTOFF. And what would be the effect on the economy if we don't pass the U.S.-Mexico-Canada Agreement?

Secretary MNUCHIN. It could be quite significant in the other direction, depending what happens, whether we stick with the existing NAFTA deal or whether we terminate the NAFTA deal. So, you know, very positive economic to move forward on it. So I am encouraged, and hopefully the House will take it up soon.

Mr. KUSTOFF. Thank you.

As it relates to the Current Expected Credit Losses (CECL), I have talked to a number of—I am concerned with community banks especially. In my area, which is west Tennessee, we have some really good, strong community banks who are concerned about the effects that the CECL implementation would have on them and their ability to lend money.

Have you or anybody in Treasury or any regulators conducted a study to assess the potential impacts to banks, and especially to community banks, if CECL is in fact implemented or those standards are implemented in the next year or so?

Secretary MNUCHIN. I share some of your concerns. We have had discussions at the FSOC over this. We have had the discussions with the Fed and other regulators about delaying the impact on it, on stress-testing and other things.

So I think the regulators understand this issue. They are trying to look at it carefully. It is an accounting provision. So it is something we are focused on. And we hope that the transition will alleviate some of the concerns that you have addressed, but this is an issue we continue to study.

Mr. KUSTOFF. Okay. I appreciate that.

My district, which is part of Memphis and then west Tennessee, has a large agricultural component. In fact, it is the largest agricultural district in the State of Tennessee. I hear from a lot of my farmers about tariffs and the impacts of tariffs. And I am characterizing, but, generally, the farmers are supportive of the President. They are willing to endure short-term pain for longer-term gain. That is generally. That is not everybody, but generally.

If you were a Member of Congress representing an agricultural district, what would you tell farmers about tariffs and the potential impacts and, hopefully, the potential positive effects that they may have?

Secretary MNUCHIN. Well, I can assure you the President is very focused on the agriculture community and the farmers specifically. We talk about it almost weekly. Sonny Perdue participates in our trade meetings and represents the farmers in those meetings.

I think the good news is, as it relates to lifting some of these tariffs with Mexico, that will help the farmers substantially in terms of trade with Mexico and reciprocal issues. And it relates to China. If we can get a good deal, it will also be very good for the farmers.

I think, unfortunately, we were on track for that, and we have gone backwards. The President and Secretary Perdue are looking at various different programs to make sure, as we take in tariffs, we can use some of that money to support the farmers. So I can assure you the President is very focused on this.

Mr. KUSTOFF. Thank you, Mr. Secretary.

And I yield back my remaining time.

Chairwoman WATERS. Thank you.

The gentleman from Utah, Mr. McAdams, is recognized for 5 minutes.

Mr. McADAMS. Thank you, Madam Chairwoman.

And, Mr. Secretary, thank you for coming back to the committee this morning.

As you may know, Utah leads the nation with the highest number of children per family on average. And I, myself, have four kids. So the cost of household goods and children's items specifically is a big concern in my district, a big concern for my constituents as they map out their household budgets every month.

So I wanted to read to you a list of items this Administration is proposing to tax in its trade dispute with China. And I know you refer to these as tariffs, but in reality, Utahans and Utah business leaders and Americans are the ones paying these costs. So I will call them what they are, a tax.

I am going to read a few of these items from the USTR's Federal Register notice on proposed list for tariffs, all of which will potentially be taxed up to 25 percent: baby diapers, infant formula, children's footwear, infant nursery monitor systems, strollers, highchairs and bouncers, baby carriages, and child safety seats.

And these are just some of the items that are related to babies and infants. It is by no means an exhaustive list, because the list also includes all forms of clothing and items that are also used by adults.

In fact, you have 76 pages of items that you want to tax at a rate of 25 percent. That is these items right here in the Federal Register. Seventy-six pages of items that would receive a 25-percent tax.

So, Mr. Secretary, I understand that you and this Administration want to address China's unfair trade practices, and I support that, but I don't think the strategy and rationale behind this process has been properly explained, and I don't think you have properly consulted Congress throughout the process.

So I guess my question is, what do I tell mothers and fathers in my district when the price of their baby formula and diapers goes up? What if they can't afford those price increases? Should they just go without buying diapers or not buy a car seat for their kid? What do I tell them?

I will let you respond.

Secretary MNUCHIN. Well, first, let me comment, I would be more than happy to come up and meet with you and a bunch of your colleagues and explain in a smaller setting our thoughts on this.

You have a very valid point on these issues, so let me make a couple of points.

First of all, these are proposed tariffs. They are not in place.

Second, there will be an exception process as part of this 301. We have already had many productive meetings with Commerce and USTR and others.

And, third, I can tell you I am monitoring the situation very carefully. I was on the phone with the CFO of Walmart, which is obviously one of the biggest sellers of the that you have described specifically, and I understand from Walmart what things they can source from other areas and what items they can't.

I would say we haven't made any decisions yet, but we will be especially sensitive to the consumer items and within the consumer items, I assure you, items that particularly affect people on fixed salaries and have four kids and others.

So there has been no decision made on any of these items, and I assure you we will monitor it very carefully before we raise all these items—

Mr. MCADAMS. Well, I would just say, I think people are alarmed. People are seeing their costs go up already in anticipation of these tariffs.

Has the Administration set up the exclusion process you referred to for round three on the China tariffs?

Secretary MNUCHIN. We are working on setting up the exclusion process.

Now, I haven't seen the prices go up. I have been monitoring this very carefully, and I would—

Mr. MCADAMS. Is there a plan for an exclusions process for round four?

Secretary MNUCHIN. Yes, there is.

And I would also just comment, given the depreciation of the Chinese currency, a big component of this is being paid for by China, because as the currency depreciates, our companies are being able to buy things at lower prices.

But we are very carefully monitoring the consumer prices, and that is something that I can assure you the President will be very focused on before we make any decisions.

Mr. MCADAMS. Well, I just want to make sure—I want my constituents to not be taxed, to not feel this pain in their monthly budgets as they are trying to balance budgets, put food on the table, and provide for their kids and their children's safety.

When can we expect any future announcement on the exclusion process?

Secretary MNUCHIN. Well, I think you know the process of round four. There won't be any decision probably for another 30 or 45 days. And we will have an exclusion process built and ready if the President decides to go forward with that.

Mr. MCADAMS. Thank you.

I know that Representative Ron Kind has introduced legislation here in the House that would require such a process as well, and I am a cosponsor of that legislation. And for the sake of the peace and assurances of the American people, I hope we will get this process moving as soon as possible.

Thank you, and I yield back.

Chairwoman WATERS. The gentleman from Virginia, Mr. Riggleman, is recognized for 5 minutes.

Mr. RIGGLEMAN. Thank you, Madam Chairwoman.

And thank you, Mr. Secretary—I am over here on the end. And thank you, Mr. Secretary, for coming back to the committee this morning.

I know the title of this hearing is, "The State of the International Financial System," but before we get into that, I wanted to quickly discuss a tax issue.

The IRS recently announced that corporate alternative minimum tax refunds received under the Tax Cuts and Jobs Act will no longer be subject to sequestration, but AMT refunds received by taxpayers in lieu of claiming bonus depreciation under Section 168 will remain subject to sequestration.

Taxpayers earn no interest on AMT prepayments and are counted dollar for dollar against future liabilities. These prepayments operate as interest-free loans to the government that remain until the taxpayer incurs a liability, to which the AMT credit is applied. In many cases, these prepayments extend for decades.

The only way to receive an AMT credit is to pay the tax. So these are not loopholes exploited by American businesses but serve as a way to reduce our tax liabilities should they owe money to our favorite uncle, Uncle Sam.

I don't support a policy that treats these taxpayers differently, particularly in the case where the AMT credits represent prepayments or overpayments of tax and should not be subject to sequester.

And, sir, can I get your commitment today that you will look into the actions that the IRS can and should take on behalf of these companies on the AMT credit specifically to remedy this situation?

Secretary MNUCHIN. Yes. I can tell you I am familiar with it. It is a technical issue. We are working with OMB on trying to resolve it, so—

Mr. RIGGLEMAN. Thank you.

Secretary MNUCHIN. —thank you for raising it.

Mr. RIGGLEMAN. Thank you. And I knew that was probably a pretty quick answer, so thank you for that.

And following up on tax issues, on March 5th of this year, the Department of the Treasury released a policy statement on the tax regulatory process. This policy statement established the IRS's commitment to notice-and-comment rulemaking, the limited use of temporary regulations, and the proper role of guidance documents.

One key assertion of this policy statement says, "Subregulatory guidance is not intended to affect taxpayer rights or obligations independent from underlying statutes or regulations. Unlike statutes and regulations, subregulatory guidance does not have the force and effect of law." I wholeheartedly agree with this statement. And what I love about our bureaucracy is we actually have guidelines about guidelines. I think that is incredible.

But would you be willing to officially adopt this position as the Chair of FSOC?

Secretary MNUCHIN. I will review that with FSOC and take it up with them. It sounds like a good idea.

Mr. RIGGLEMAN. Thank you very much.

I think the entire Administration needs to have the same view of guidance. I would argue that if this document is good enough for the IRS, it should be equally appropriate for the FSOC or any Federal regulatory body in the United States. And, again, that is just based on my business background with regulations, about regulations, about guidance.

I see my time is running a little bit short, but one final topic I want discuss is cybersecurity.

In June of 2017, Treasury issued a report entitled, "Nonbank Financials, Fintech, and Innovation." In this report, Treasury states, "Regulatory fragmentation, overlap, and duplication, however, can lead to ineffective regulatory oversight and inefficiencies that are costly to the taxpayers, consumers, and businesses."

By the way, Mr. Secretary, I think you can see a theme in my questioning today.

The report also says that, "Cybersecurity is addressed among a broad group of Federal and State regulators through the Financial and Banking Information Infrastructure Committee (FBIIC)."

When the prudential regulators were here last week, this was something I talked about. I also know that the Financial and Banking Information Infrastructure Committee (FBIIC), is chaired by Treasury and comprised of over 15 members from additional regulators.

Can you quickly discuss how Treasury is working with the numerous regulatory bodies to harmonize cybersecurity regulations to protect consumers without creating too cumbersome a framework?

Secretary MNUCHIN. Yes. Thank you. It is a major priority of mine. We have added additional resources to the Department. We have met with public and private partnerships on this.

And we really have two tasks. One is harmonization across the regulators. We have recently had a productive meeting with the bank CEOs and the regulators on that. And the second is making sure we have better coordination between our intel, our technical people, and the private sector to make sure that we are fully prepared.

Mr. RIGGLEMAN. Thank you very much.

I think just in closing I would ask, as we go forward, I would just hope that we don't have any guidance come out about subregulatory guidance, which is about the guidance, not actually regulations.

Thank you, and I yield back.

Chairwoman WATERS. Thank you.

The gentlewoman from Virginia, Ms. Wexton, is recognized for 5 minutes.

Ms. WEXTON. Thank you, Madam Chairwoman.

And thank you, Mr. Secretary, for joining us here today.

I would like to talk a little bit about your refusal to comply with a lawful subpoena from the Ways and Means Committee.

As you know, Section 6103(f)(1) says that the Secretary shall furnish the Ways and Means Committee with any return or return information specified in requests. You are aware of that, right?

Secretary MNUCHIN. Yes.

Ms. WEXTON. Okay.

And you are also aware that nowhere in that section is the chairman of Ways and Means required to include a reason, a legislative reason, for the request. You are aware of that as well?

Secretary MNUCHIN. I have read the language.

Ms. WEXTON. Okay.

But in your letter dated May 17th to Chairman Neal, you rely on advice from the DOJ in determining that the request lacks a legitimate legislative purpose. Is that correct?

Secretary MNUCHIN. That is correct.

Ms. WEXTON. Okay.

Now, you understand that we are the Legislative Branch so we make decisions about legislating, right?

Secretary MNUCHIN. I understand that there are three branches of government and they perform different functions.



Ms. WEXTON. And you are the Executive Branch, right?

Secretary MNUCHIN. That is correct.

Ms. WEXTON. Which executes the laws. You don't make the laws.

Secretary MNUCHIN. Correct.

Ms. WEXTON. Right. We make the laws.

Now, we learned last night of a second opinion which was written by the IRS Chief Counsel's Office. Are you aware of that memo?

Secretary MNUCHIN. I became aware of that memo when it was—we got an inquiry from The Washington Post, and it was just recently published. I am not sure who the author of that was, but I have seen it in The Washington Post.

Ms. WEXTON. Okay. So when did The Washington Post inquire of you about your knowledge—

Secretary MNUCHIN. I believe the day before yesterday, they called us up, and we confirmed that I and the Commissioner were not aware of that letter and had not seen it.

Ms. WEXTON. But you have since that time reviewed that memo.

Secretary MNUCHIN. Actually, I haven't reviewed it. I looked at it literally on the way up here. Someone handed me the printed copy of it. So I would not describe that as I have reviewed it.

Ms. WEXTON. Did somebody make you aware that the memo states that the law does not require that the Ways and Means Committee Finance Chair or JCT Chief of Staff include a reason or purpose for the request?

Secretary MNUCHIN. Again, I haven't—again, let me just say, the legal advice that we have relied upon—and, again, I understand there are three branches of government, and when it comes to constitutional issues, there could be different interpretations. And that is why there is a third branch of government, to interpret—

Ms. WEXTON. But—I'm sorry, reclaiming my time, you are at least aware that the conclusion of that memo directly contradicts the conclusion that you are relying upon?

Secretary MNUCHIN. No, I actually don't believe that is the case. That memo, I understand, is addressing a different issue and is not addressing the issue that we and the Department of Justice looked at.

But, again, let me just say, this is not a letter that came to our attention earlier—

Ms. WEXTON. Madam Chairwoman, reclaiming my time, who at the IRS would have made the decision not to run this memo up the chain?

Secretary MNUCHIN. I have no idea.

Ms. WEXTON. Do you plan to find out?

Secretary MNUCHIN. We are trying to find out who wrote the memo, where it came from, when it was, and why it wasn't distributed, yes.

Ms. WEXTON. Have you had any conversations with the President at any time prior to your confirmation or to today about your desire or willingness to provide the President's tax returns to Congress?

Secretary MNUCHIN. I have had no conversations ever with the President or anyone in the White House about delivering the President's tax returns to Congress.

Ms. WEXTON. I want to switch gears and talk for a minute about Jamal Khashoggi, the Washington Post columnist and Virginia resident who was brutally killed at the Saudi Arabian consulate in Istanbul. The Saudi government has already acknowledged its role in the killing of Mr. Khashoggi. The CIA has reportedly established with high confidence that it was an assassination that was ordered by Crown Prince Mohammad bin Salman.

Do you accept the intelligence community's assessment of what happened?

Secretary MNUCHIN. Let me just first comment that it is obviously a horrible situation that he was killed.

I can't comment—I obviously have access—

Ms. WEXTON. Do you accept the intelligence community's assessment?

Secretary MNUCHIN. Again, what I would just like to say is, I have access to all of the classified information. It would be inappropriate for me to make comments on the CIA intelligence that—

Ms. WEXTON. Reclaiming my time, Madam Chairwoman.

Secretary MNUCHIN. —has not been released.

Ms. WEXTON. Okay. Let me back up a little bit. So you met with Crown Prince Mohammad bin Salman less than 3 weeks after the disappearance of Mr. Khashoggi, right?

Secretary MNUCHIN. I did. I was scheduled to speak there, which I canceled, but I did meet with him and talk to him about terrorist financing. And I obviously have private conversations—

Ms. WEXTON. And there is a picture that was tweeted out by the Kingdom on October 22nd. Is that you in that picture with—

Secretary MNUCHIN. That is. And we also had private conversations about the Khashoggi investigation at that time.

Ms. WEXTON. Okay. So you were fine with appearing publicly with Mohammad bin Salman?

Secretary MNUCHIN. I canceled my public speech. I was in a meeting privately, and there were photographers. And I thought it was the appropriate thing to deliver a message to him from the President—

Chairwoman WATERS. Time has expired.

Ms. WEXTON. Thank you, Madam Chairwoman. I yield back.

Chairwoman WATERS. The gentlewoman from Missouri, Mrs. Wagner, is recognized for 5 minutes.

Mrs. WAGNER. I thank the chairwoman.

And, Secretary Mnuchin, thank you for the courtesy of coming back today. I am especially pleased, as the vice ranking member of Financial Services and also the vice ranking member of Foreign Affairs, that we are focusing on the state of the international financial system here today.

Mr. Secretary, I was pleased to see that the U.S. seized a North Korean cargo ship earlier this month carrying coal. North Korea has also conducted missile tests this month for the first time in almost a year-and-a-half with missiles that appeared to resemble Russian technology.

As talks with the North Koreans stall and North Korea demonstrates its increasing aggression, what specific measures can we expect to come from Treasury, sir?

Secretary MNUCHIN. Well, the President is determined that we continue our efforts to enforce both the U.N. sanctions and the U.S. sanctions against North Korea. And they have had a very important effect on bringing the Chairman to the negotiating table, and we will continue to enforce those sanctions.

Mrs. WAGNER. Especially in the banking arena?

Secretary MNUCHIN. Across multiple arenas, yes. They have all been very effective.

Mrs. WAGNER. Mr. Secretary, the Obama Administration mistakenly believed that Burma was on the path to reform, and it lifted sanctions and embraced IFI investment.

Given that Burma has continued to commit atrocities against ethnic groups across the country, do you think IFIs should continue engaging with Burma? And if so, how can they help prompt a more rights-respecting environment?

Secretary MNUCHIN. I am concerned about the situation there. We will continue to have discussions with the IFIs and others and monitor this situation so that there is the appropriate outcome.

Mrs. WAGNER. And, again, I just hope that we will impose additional sanctions that were lifted by the Obama Administration, given the path that has been taken vis-a-vis the atrocities that are happening against so many different ethnic groups.

Burmese civil society organizations have expressed concerns with the IFC's lending proposals in luxury development projects, infrastructure, and agribusiness given the country's corrupt business environment and lack of property rights.

How has the IFC used its position to promote transparency and inclusive economic development in Burma?

Secretary MNUCHIN. Well, let me just say, I share your concerns. I know our international department has been having conversations. And I expect to see David Malpass very soon, and I will raise this specifically to his attention. There is no reason, in my mind, that the IFC and others should be doing this without the appropriate conditions attached.

Mrs. WAGNER. And I would be very pleased to send some information along, some questions, if you will be having those discussions.

Secretary MNUCHIN. Please do.

Mrs. WAGNER. Thank you.

After issuing its first U.S.-dollar-denominated bond issue this month, the China-backed Asian Infrastructure Investment Bank (AIIB) raised \$2.5 billion and attracted orders of more than \$4.4 billion. The AIIB has said that the funds will be used to invest in infrastructure projects across Asia, where the AIIB is a major financier of Belt and Road projects.

What are the World Bank, IMF, and the Asian Development Bank doing to support the Belt and Road Initiative?

Secretary MNUCHIN. Well, I can speak for the IMF and the World Bank, and they are both very focused on debt transparency and making sure that China follows rules of debt transparency that are consistent with the Paris Club and others and making sure that, if debt is taken on by these countries, that it is sustainable and that they can afford it.

And if there is proper financing for infrastructure, that is one thing, but if there is money that is designed to loan-to-own, that is inappropriate.

Mrs. WAGNER. And how is the U.S. ensuring that countries aren't becoming overly indebted to China or entering predatory contracts?

Secretary MNUCHIN. Well, those are conversations we have at the G20 consistently, and I think there is a lot of support from all of our allies on this issue.

Mrs. WAGNER. Thank you.

I am about to run out of time, but I would like to forward some information about Burma to you for your further discussions. Thank you.

I yield back, Madam Chairwoman.

Chairwoman WATERS. Thank you.

The gentleman from Connecticut, Mr. Himes, is recognized for 5 minutes.

Mr. HIMES. Thank you, Madam Chairwoman.

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

I want to revisit Treasury's decision to delist Rusal, En+, and associated entities owned and controlled at the time by Russian oligarch Oleg Deripaska.

Just to remind you of the fact pattern here, Congress is informed on December 19th, literally the day we are breaking for the holiday break, that it is Treasury's intention to delist these entities. Nonetheless, Congress acts on January 17th with a strong veto-proof majority in the House to disapprove of the delisting. The Senate acts, as well, but not with veto-proof majorities. And despite this disapproval on the part of the United States Congress, on January 27th the Treasury, in fact, delists Rusal and En+ as a result of the deal that was struck.

Since then, Mr. Deripaska's net worth, inasmuch as I can calculate it, has risen by \$2 billion, largely as a result of the doubling of the share price of En+ and his remaining stake. That is what we can see visibly. Lord Barker of Battle, who engineered this deal, the executive chairman of En+, received a \$5 million bonus for his success in engineering this deal. Lord Barker of Battle, of course, denied access to classified information by the British Parliament because of his ties to Russia.

And what I worry about most is what the leader of Russia, Vladimir Putin, sees. Deripaska says, "I don't separate myself from the Russian state. I have no other interest." So Vladimir Putin sees the Treasury act in contravention of the will of Congress to deliver this remarkable gift to Mr. Deripaska, a guy who associates himself with Russian interests, at a time that we are really coming to understand the full effect of the Russian interference in our election, we know what they are doing in Syria, and we know what they are doing around the world.

So, Mr. Secretary, my question is—and I got into the weeds with you on this, I know, in the classified session, and I had the opportunity to talk to OFAC. I understand the process and the mechanics. But I wonder if you can tell me, what American interest was served, what strategic interest was served by the decision to delist En+ and to massively increase Mr. Deripaska's net worth?

Secretary MNUCHIN. Well, let me give you a brief answer now, and I would be happy to follow up with you.

First of all, let me just say, many people in Treasury, including myself and a large group of career staff, spent a long time on this transaction, negotiating this transaction. First of all, it was our decision to put him on the sanctions list despite what we knew this would do to the aluminum markets.

We were pleased with the negotiations. We think that this shows that sanctions work, that not only has this Administration done more sanctions on Russia than anybody previously but—

Mr. HIMES. Mr. Secretary, I don't mean to be rude, but when you say—I have heard you say that before, that sanctions work. And I have heard you say on multiple occasions that the point of sanctions is to change behavior.

So please elaborate on what you just said. How, in this case, did sanctions work? How did Mr. Deripaska change his behavior, Russia change its behavior? How did they work, in this case?

Secretary MNUCHIN. Well, what we have done is we have effectively separated him from the company. We have put in a compliance system with U.S. and European people on the board, which is unprecedented.

And as it relates to strategic issues, I would just also comment, there were many workers throughout Europe—this isn't just workers in Russia. And we think this is a perfect example of where sanctions work. There was a change in behavior by the company. The company was delisted.

But I would be more than happy to—

Mr. HIMES. I'm sorry. Tell me what the change in behavior on the part of the company was.

Secretary MNUCHIN. The change in behavior is the company has separated themselves from Deripaska and has agreed to an unprecedented compliance program with the board—a Russian company now controlled by a board of non-Russians. It is somewhat unheard of.

Mr. HIMES. Well, first of all, they haven't separated themselves when Deripaska continues to own a 45-percent stake in the company, and there are questions about whether he continues to control it.

And I understand you may feel some obligation to European workers, but my question really was, what American interest, what American strategic interest was served by this deal, which had the effect, undeniably, of massively enriching Mr. Deripaska?

Secretary MNUCHIN. Again, this was never about kind of trying to make Deripaska's net worth go up or down. This was about separating Deripaska from the company. His voting interest went down to 35 percent. He has no management responsibility. We have unprecedented visibility into one of the largest Russian companies and the second-largest aluminum company in the world. This is why—

Mr. HIMES. I understand the mechanics, sir. I am having a hard time understanding—and Ms. Gacki came and spent a lot of time with me. I got the mechanics; I understand them. I still do not see what American interest was served here, and that is my question to you.

Secretary MNUCHIN. Well, I believe the American interests were served in separating the company. But I would be more than happy to talk to you more about it.

Mr. HIMES. Thank you, Mr. Secretary.

And I yield back.

Chairwoman WATERS. The gentleman from Oklahoma, Mr. Lucas, is recognized for 5 minutes.

Mr. LUCAS. Thank you, Madam Chairwoman.

Mr. Secretary, I really only have one question, and I think it is a relatively simple question.

I would open with an observation that you are obviously a man of patience or you wouldn't be here again today. I consider myself also to be a person of patience. That might be a better way to describe that.

And before I ask my question, just to observe that I have been, like the chairwoman and a handful of other members, a member of this committee for a very, very long time. And I view us, in many ways, like a corporate board: responsible to the entities that own the enterprise; responsible to customers; and responsible for the success of the process. So I come at that from—with my question.

In 2017, the Treasury Department's "Capital Markets" made recommendations related to the lack of harmonization between CFTC and banking regulators regarding initial inter-affiliate margin.

As you are aware, the regulators have not yet decided to implement your recommendation. Last week, I asked the heads of the banking regulators if they intended to prioritize implementing your recommendation. Based on their answers, I am now very concerned they may try to make it a part of a much larger review of the Fed's regulations, one which could literally drag out for years.

So this is my concern, and I have been raising it for nearly 5 years, but it remains unaddressed. Do you agree that a fix on inter-affiliate margin requirements should be a priority? And will you impress upon those agencies the importance of acting?

Secretary MNUCHIN. Yes and yes. And thank you for acknowledging my patience.

Mr. LUCAS. Absolutely, Mr. Secretary. Because if we don't address this, we will drive resources and we will drive business out of this country—a reflection, I think, of the topic of this hearing.

And after pursuing this for nearly 5 years, I would simply say, when I chaired another committee, it took me 2½ years to pass a farm bill that would successfully pass a Republican House, a Democrat Senate, and be signed by a Democrat President. I and my former colleague from Tennessee, when it came time to do what was necessary to reauthorize the Export-Import Bank, literally used an extraordinary legislative process from 1910 to take it away from a then-chairman and over the heads of an entire majority leadership to get a piece of legislation all the way to the President's desk to be signed.

I would just simply observe that after 5 years, it is time. And if the agencies can't bring themselves to focus to address this issue, perhaps it is time to help them. I simply use you as the courier of the message, Mr. Secretary.

I appreciate your responses.

I yield back, Madam Chairwoman.

Chairwoman WATERS. Thank you.

The gentlewoman from Iowa, Mrs. Axne, is recognized for 5 minutes.

Mrs. AXNE. Thank you, Chairwoman Waters.

And thank you, Secretary Mnuchin, for being here again. I appreciate it.

I would like to talk to you a little bit about tariffs and trade. I am from Iowa, so of course we are being hit hard.

First of all, I appreciate the removal of the Section 232 tariffs on steel and aluminum. However, those were put on by your Administration. But thank you so much for removing those.

But I want to talk to you about the tariffs that were just placed on Chinese goods this month. And the tariff is on almost \$200 billion of imports, and it was just increased from 10 percent to 25 percent.

Do you agree with President Trump that China is footing the bill for these tariffs?

Secretary MNUCHIN. I agree that China is footing most of the bill for it, yes.

Mrs. AXNE. So who is paying the price for these?

Secretary MNUCHIN. Well, again, when you look at the tariffs, there are probably three or four different things that are going on. One is a change in the currency, which leads to a lower price for us. We can buy things. Two, it is margins that are being absorbed by companies in China. And, three, there may be in certain cases an impact passed on to our consumers, and we are closely monitoring that. And that would be part of the exception process.

Mrs. AXNE. Well, I appreciate you bringing up that last piece, because major retailers like Walmart have said they will raise prices as a result of your Administration's tariffs.

Do you understand how a tariff operates, and could you tell us a little bit about that?

Secretary MNUCHIN. I am not sure if you were here when I mentioned earlier that I just spoke to the CFO of Walmart. We speak on a regular basis. So I am monitoring with them very carefully—

Mrs. AXNE. So are tariffs a tax on imports?

Secretary MNUCHIN. Tariffs are a tariff on imports. They are not a tax. They are a—

Mrs. AXNE. Well, tariffs are a tax on imports, and they are paid for by the U.S. companies who import those goods.

So do our companies like Nike and Adidas and Walmart, who have said they are going to pass on these prices to consumers—would you not consider that an increase on costs on folks like mine in Iowa and Americans across this country?

Secretary MNUCHIN. Well, what I mentioned earlier and the reason I spoke to Walmart is because, obviously, they have a lot of these consumer issues. The way the tariffs were designed was the last tranche was really the consumer issue.

We are monitoring carefully. There will be some exceptions. My expectation is a lot of this business will be moved from China to other places in the region so that there will not be a cost to—

Mrs. AXNE. So, reclaiming my time, I am not getting a straight answer here. Do you agree that American consumers will be paying more as a result of these tariffs?

Secretary MNUCHIN. I don't necessarily agree with that. And that is something we are monitoring very carefully, and we will be issuing exemptions—

Mrs. AXNE. So you disagree with all of our key retailers in the country and experts who understand that a tariff is most likely passed on to consumers because that is historically what happens? You disagree with that, as the Secretary of the Treasury?

Secretary MNUCHIN. I just spoke to many of these CEOs.

Mrs. AXNE. Do you disagree with that, that the tariffs won't be passed on to consumers in any way, shape, or form?

Secretary MNUCHIN. Again, there may be a small number of items where the tariff may be passed on, and those are the things we will specifically—

Mrs. AXNE. So you agree that American consumers will be paying more because of the tariffs?

Secretary MNUCHIN. No. We have made no decisions on that. The last tranche is subject to the President's approval and subject to exemptions. So, no, I don't—

Mrs. AXNE. I think it is the importers that make the decisions on that. Isn't that correct? It is their products that they are importing?

Secretary MNUCHIN. Excuse me?

Mrs. AXNE. The decision is being made by the folks in our country who own the companies who are importing the products, not necessarily you, who is deciding what price they are going to put on their product.

Secretary MNUCHIN. Well, again, if we issue an exemption, then there will be no price increase.

And, again, most of those companies are moving products to other places—

Mrs. AXNE. So, reclaiming my time, moving on, can you tell me what the average Iowan makes in a year?

Secretary MNUCHIN. I can't tell you exactly, but I would guess it is—

Mrs. AXNE. Can you tell me what the average American family makes in a year?

Secretary MNUCHIN. Yes. Depending upon whether you use the mean or the median, it is between \$45,000 and \$65,000.

Mrs. AXNE. Yes. Median is \$60,000, closer to \$79,000 for the mean.

Can you tell me what cost these tariffs will put on these American families?

Secretary MNUCHIN. I don't expect there will be significant costs on the American families. And that is something that we are absolutely focused on.

Mrs. AXNE. Have you done research on this?

Secretary MNUCHIN. I have. As I said, I have just spoken to all the major companies that provide consumer goods.

Mrs. AXNE. So, if you have done research on this, why haven't we seen this research? I haven't seen it. I don't think my colleagues



have seen it. Why hasn't that been passed on to us to ensure that the constituents in our districts aren't paying the cost for this?

Secretary MNUCHIN. Well, let me just comment, the last tranche is under investigation. The President has not yet made the decision, and the consumer products are, by design, in the last tranche.

Mrs. AXNE. So will you commit to providing us this research?

Secretary MNUCHIN. Again, at the appropriate time, we will brief Congress on what the economic impact is of it, yes.

Mrs. AXNE. Okay.

Well, let's move on—

Mr. SAN NICOLAS [presiding]. Time has expired.

Mrs. AXNE. Thank you.

Mr. SAN NICOLAS. The gentleman from Texas, Mr. Gooden, is recognized for 5 minutes.

Mr. GOODEN. Thank you for being here, Mr. Secretary. I also wanted to congratulate you, because after today you will hold the record for the longest time served in a hearing by any Secretary of the Treasury. So, apologies for not marking the occasion better.

Secretary MNUCHIN. Thank you. I think it will be 5 hours.

Mr. GOODEN. Oh, very good. Well, we are happy to have you.

I was going to ask more about these tax returns. My colleagues across the aisle seem to be so obsessed with these tax returns. Has anyone in the Administration asked you to release tax returns for Members of Congress or anyone else for political purposes?

Secretary MNUCHIN. No, they haven't. And neither Chairman Brady, when he ran the committee, nor now-Chairman Grassley have asked for those returns, which they would have the right to ask for, subject to constitutional protections.

Mr. GOODEN. And I have also heard that it is important for the Ways and Means Committee and others in Congress to determine whether or not the IRS is actually auditing our President and Vice President. Is there any reason to think that the IRS isn't doing their job with respect to audits?

Secretary MNUCHIN. No. We have offered to brief the committee on the audit process. They haven't taken us up on that. But I don't see any reason why they need access to actual returns to understand that the process of the audit is fair and going through correctly.

Mr. GOODEN. And you were asked earlier today—in today's Washington Post, there is a story about a confidentiality memo from the IRS. Do you make your decisions based on what is on the front page of The Washington Post or confidential memos that you haven't seen? Is that how you do business at the Treasury?

Secretary MNUCHIN. Very rarely. I don't think I have made a decision on that basis.

I would also just comment, the memo was marked, "Draft." It was not a final memo. But I don't know how it got to The Washington Post. It would have been more interesting if it had gotten to me or the Commissioner to review.

Mr. GOODEN. Well, I want to thank you for your work. I want to thank you for standing up for the American taxpayer.

I don't believe that tax returns should be used for political purposes, and I believe you share that view. Republicans certainly

shared that when they were in power in the House a few months ago.

And I want to encourage you to continue fighting for the American taxpayer. And thank you for your work.

Secretary MNUCHIN. I assure you, weaponizing the IRS is a major concern of ours that affects all taxpayers in both parties.

Mr. GOODEN. Well, I think if you are looking for evidence that the U.S. Congress doesn't need tax returns of American citizens, you can look no further than the House Financial Services and Ways and Means Committees. So, thank you.

I yield back.

Mr. SAN NICOLAS. The gentlewoman from North Carolina, Ms. Adams, is recognized for 5 minutes.

Ms. ADAMS. Thank you, Mr. Chairman.

And thank you, Secretary Mnuchin, for returning.

You know, you said you are patient. I am patient too, but I have to tell you, I am losing patience with the President.

Do you know how many times President Trump has publicly offered to release his tax returns?

Secretary MNUCHIN. I do not.

Ms. ADAMS. Well, we should have something on the screen. He has personally offered to give us a glimpse of his tax returns at least 24 times. It was scrolling on the screen, and it will probably be back up.

It was April 19, 2011, in an interview, when he first said that—he said if President Obama would release his birth certificate, then he would release his tax returns. But, of course, President Obama did do what he said he would do, and President Trump did not do what he said he would do.

So do you think the American people have a right to know what is in those tax forms?

Secretary MNUCHIN. No, I don't. Presidents are not required to. And the American public knew that he didn't release them before they voted for him. So that is—

Ms. ADAMS. All right. I am reclaiming my time now.

Do you know what the President is hiding?

Secretary MNUCHIN. Can you repeat that? I'm sorry.

Ms. ADAMS. Do you know what he is hiding? I mean, he doesn't want anybody to see them, certainly not the Congress.

Secretary MNUCHIN. I don't think he is hiding anything, but—

Ms. ADAMS. Okay. So you don't know.

Secretary MNUCHIN. Correct. I don't know anything about his tax returns.

Ms. ADAMS. All right.

We have heard a lot of excuses over the years about why he could not release them. He said, well, it was under audit, but once they finished that, he would release them. But an IRS Commissioner confirmed that an audit is not necessary for you to release your tax returns. Are you aware of that?

Secretary MNUCHIN. I am. But that is the President's decision, and I am not involved in the President's decision.

Ms. ADAMS. All right. Let me reclaim my time. I want to get through my questions

Are you familiar with Congress' oversight authority?

Secretary MNUCHIN. Yes, I am.

Ms. ADAMS. Okay. So it is found in the Constitution and public laws and the House and Senate rules, and it does say that when the request is made by the appropriate offices, that he should release them. Are you aware of that?

Secretary MNUCHIN. I have read the law. I have also been advised of the interpretation of the law. And I understand the constitutional issues.

Ms. ADAMS. All right. So why haven't you complied with Chairman Neal's request?

Secretary MNUCHIN. Because I think that would be unlawful, as advised by the Department of Justice. And that is why there is a third branch of government that most likely will review—

Ms. ADAMS. All right. We are aware of that. Let me reclaim my time, sir.

So are you aware, then, that by denying this you are in direct violation of the law?

Secretary MNUCHIN. No, absolutely not. I have been advised I am not violating the law. I never would have done anything that violated the law. And quite the contrary, I have been advised that had I turned them over, I would be violating the law—

Ms. ADAMS. All right. Let me move on, sir.

Secretary MNUCHIN. —which I would not do.

Ms. ADAMS. So are you alleging that Chairman Neal lacks a legislative purpose, and that is the basis for your refusing his request?

Secretary MNUCHIN. Well, given that this is now most likely going to litigation, I think my letters have been quite clear in why we have denied the request. And that is based upon the—

Ms. ADAMS. All right. Okay, sir. Let me move on.

Secretary MNUCHIN. —advice of the Department of Justice.

Ms. ADAMS. Thank you very much.

So are you intending to comply with the request at all?

Secretary MNUCHIN. No. I have made clear that—

Ms. ADAMS. You are not. Okay.

Secretary MNUCHIN. —we have sent him a letter that it would be unlawful for us to—

Ms. ADAMS. All right. Okay, sir. I am reclaiming my time.

Now, have you told the IRS not to respond to Chairman Neal's request?

Secretary MNUCHIN. The IRS independently—the chairman independently wrote a letter concurring with my position.

Ms. ADAMS. So can you give me a yes-or-no answer? Have you?

Secretary MNUCHIN. Can you repeat the question?

Ms. ADAMS. Have you told the IRS not to respond to the request?

Secretary MNUCHIN. Again, I just said, the IRS independently wrote a letter concurring with—

Ms. ADAMS. Sir—okay. Let me reclaim my time. Can you give me a “yes” or “no?”

Secretary MNUCHIN. I don't understand the question.

Ms. ADAMS. All right. Okay. You will not—you won't give me a “yes” or “no.”

So let me ask you—first of all, I did a little research myself, and I know that you have done some work with Goldman Sachs in the investment banking sector. Have you ever lost a billion dollars?

Secretary MNUCHIN. I have never lost a billion dollars.

Ms. ADAMS. Would you enter into a business relationship with someone who had a track record of losing a billion dollars?

Secretary MNUCHIN. It depends. If they made \$10 billion and lost \$1 billion—

Ms. ADAMS. All right. Okay. Let me move on. Would you invest in a business venture that has lost a billion dollars?

Secretary MNUCHIN. Again, if it made \$10 billion and lost \$1 billion—

Ms. ADAMS. All right. Thank you very much. Thank you, sir. Let me reclaim my time.

Really quickly, I do have some concerns about the Opportunity Zones. I sent a letter to you. We haven't gotten a response yet. I hope that you will be able to respond to the questions that I have asked in that letter. Did you get the letter?

Secretary MNUCHIN. I assure you that I will check with my group this afternoon. We very much support the Opportunity Zones, so we will be very responsive.

Ms. ADAMS. All right. I hope that you will ensure that the program does not accelerate disruptive gentrification in those designated census tracts.

Secretary MNUCHIN. I share your—

Ms. ADAMS. Sir—I yield back. Thank you very much.

Secretary MNUCHIN. I share your concerns.

Ms. ADAMS. Thank you.

Secretary MNUCHIN. Thank you.

Mr. SAN NICOLAS. The gentleman from Colorado, Mr. Tipton, is recognized for 5 minutes.

Mr. TIPTON. Thank you, Mr. Chairman.

Mr. Secretary, thank you again for taking the time to be here with us today. My home State of Colorado is home to a lot of institutions that play a very important role for rural customers as part of the Farm Credit System. As you know, despite the fact that the Farm Credit Bank focuses on rural America, they have deep ties in the global financial system.

As developments around Brexit continue to unfold, there is concern over possible spillover effects for rural borrowers. Could you help us understand what Treasury is doing to mitigate consequences that may arise out of Brexit, both in your discussions with your U.K. counterparts and with your colleagues in Brussels?

Secretary MNUCHIN. We have been very closely involved in these discussions now for close to the last 2 years. I think you know we are not primarily involved, but we have been having very close discussions, and I am relieved that there is an extension. And I just hope that the U.K. and the Europeans take advantage of that so that we don't get to the brink again with a hard Brexit, which could have very detrimental economic impacts.

Mr. TIPTON. Thanks.

I want to be able to revisit a topic that my colleague, Mrs. Wagner, brought up in regard to the Belt and Road Initiative, and then also to the Asian Infrastructure Investment Bank. What is Treasury doing to pressure Beijing so the Chinese do respect some of the same standards and principles that we and our allies uphold in terms of financial transactions?

Secretary MNUCHIN. Well, this is something that we are absolutely unified in working with our allies on. It is a topic at the G7 and the G20. I will be going to Japan in the near future and focusing on this issue. The IMF and World Bank are. And I think there is a consistent view that proper lending to developing countries is appropriate; inappropriate lending is not. And we have concerns about that, and it should be full of transparency. They should play by the rest of the rules as does everybody else.

Mr. TIPTON. I would agree with that, and it is obviously problematic, when we are talking about the Asian Infrastructure Investment Bank seems to be the go-to creditor right now for nations that are in need. Do you think that they ought to be able to have better development standards through that bank, and are there tools we can use to try and force that?

Secretary MNUCHIN. Absolutely, and that is something, as I said, we are very focused on.

Mr. TIPTON. Great.

When we are talking about the World Bank, it is often rewarded for churning out large loans to middle-income countries, including billions each year to China itself. Tougher environments do tend to get left behind when we look at who they are lending to, even though the Bank is supposed to be able to prioritize them. How can we address Beijing's Belt and Road Initiative when it has major ambitions, obviously, in Africa, and isn't and shouldn't the World Bank be more incentivized to be able to tackle some of the challenging projects on the continent?

Secretary MNUCHIN. Well, let me just say I couldn't be more pleased that my Under Secretary for International Affairs, David Malpass, is now leading the World Bank. It is the first time in an awfully long time that we had an uncontested vote on this. I think David is very focused on reforms at the World Bank and is very focused on these issues that you have talked about, making sure that the World Bank is lending to countries that really need the money and making sure that there are consistent standards throughout the developing countries. So we look forward to his progress on that.

Mr. TIPTON. Thank you.

Before I close, I do want to make mention of your work related to the IAIS capital standards for insurers. We have a 150-year-old system of State-based insurance regulation that seems to work well for consumers and for the market, and there is concern that the European-centric rules of the road will raise insurance rates in my district.

Are you working to ensure that our system of insurance regulation isn't governed by foreign regulatory bodies?

Secretary MNUCHIN. I am, and I actually can tell you, I just gave a speech to the large insurance group here. It was my longest speech I have given yet on this issue, and we will make sure you get a copy of it.

Mr. TIPTON. Great. I appreciate that, and I yield back.

Mr. SAN NICOLAS. The gentleman from Illinois, Mr. Garcia, is recognized for 5 minutes.

Mr. GARCIA OF ILLINOIS. Thank you, Mr. Chairman.

Good morning, Mr. Secretary. I would like to switch gears briefly and talk about the Financial Stability Oversight Council. Last October, the Financial Stability Oversight Council, known as FSOC, which you Chair, removed the systemically important financial institution (SIFI) designation from Prudential, meaning that no nonbank financial institutions are currently designated as SIFIs.

Do you think it was appropriate that Prudential, which New York University rates as the third most systemically risky institution in the U.S., now has as its chief regulator the New Jersey Department of Banking and Insurance?

Secretary MNUCHIN. We absolutely support the State-based regulatory system, and at FSOC, as you said, we have moved to a different system of risk-based management.

Mr. GARCIA OF ILLINOIS. FSOC then announced in March that it would no longer designate nonbanks as SIFIs and that, going forward, nonbanks would need to demonstrate a high “likelihood of distress,” before being more closely scrutinized—a very high bar that nonbanks would likely fail to meet until their impending collapse.

Last week, former Fed Chairs Ben Bernanke and Janet Yellen joined former Treasury Secretaries Jack Lew and Tim Geithner in criticizing this move by FSOC, warning that it would “neuter the designation authority.” Writing of their experiences at the helm during the financial crisis, the former regulators noted that the failure of nonbank financial companies was central to the propagation of risk from the financial system to the U.S. economy, international finance markets, and the global economy as a whole during the crisis.

What do you make of this criticism? Isn’t it true that FSOC just made it harder to protect against risks taken by nonbanks?

Secretary MNUCHIN. Well, first, let me say I think it is good that we have a system where people can put in comments on proposed regulations. I actually spoke to Secretary Lew about his letter. They have a different view on regulatory issues. It is a different time, but not unlike their letters, we will look at other letters before we put in final rules.

Mr. GARCIA OF ILLINOIS. And their views stem from the experience of the meltdown that we experienced in 2008. Would you please explain what recourse FSOC would have in a scenario like we saw in 2008 when AIG, for example, greatly expanded its sales of credit default swaps, becoming a major contributor to the financial crisis?

Secretary MNUCHIN. Again, because of the way we are looking at it, we would have picked up AIG in their risk associated with credit default swaps. Their risk was primarily in the holding company and not in the insurance companies, which were regulated, and that is the type of activity under our new rules that we would indeed pick up.

Mr. GARCIA OF ILLINOIS. Mr. Secretary, last week the Federal Reserve released its financial stability report which found that leverage lending has grown and that protections that shield lenders from default on those loans has eroded. In light of stern warnings like these, why has FSOC only convened on one occasion this year?

Secretary MNUCHIN. Actually, FSOC and specifically the private working group, the President's private working group, which is also associated on this issue, has addressed this. We have calls in between formal meetings, so the primary regulators are studying this issue, and it is something we are not particularly concerned about at the moment. We are monitoring very, very carefully to make sure this doesn't become an issue.

Mr. GARCIA OF ILLINOIS. So you are not very concerned about a change in the economy and a potential recession looming?

Secretary MNUCHIN. No. I think, in the near future, the chance of a recession is quite low. I think the credit quality is extremely good, and in the case of leveraged lending, most of it has moved outside of the banking business into nonbank areas and areas that don't have insured deposits, and we take great comfort in that.

Mr. GARCIA OF ILLINOIS. Thank you, Mr. Secretary.

I yield back my time, Mr. Chairman.

Mr. SAN NICOLAS. The gentleman from Arkansas, Mr. Hill, is recognized for 5 minutes.

Mr. HILL. I thank the Chair. Mr. Secretary, welcome back to the committee. We never get tired of our Treasury Secretary visiting House Financial Services. I want to raise an issue, first, on Puerto Rico and the Virgin Islands. Congressman Duffy and I wrote you a letter last November 30th about challenges in getting the appropriated funds by Congress out into the contracted private sector both in the Virgin Islands and Puerto Rico. Obviously, both of the Territories have a huge cashflow problem. So we appropriate money here. We give that money to HUD or to FEMA. That is approved by OMB and fully in compliance with Congress' wishes, and then it is allocated for projects in Puerto Rico or the Virgin Islands. But they have no money to pay the contractors.

So, while I am not suggesting that we should have a line of credit to Puerto Rico, there has to be a way within OMB and Treasury, with you as our chief financial officer of the country, of having that money flow because I have subcontractors in Puerto Rico who live in my district who haven't been paid in over a year. It is just an accounts payable. The work has been done. It has met standards. Puerto Rico commissioned to do it, but Puerto Rico has no money to pay the contractors, and yet we have appropriated funds at FEMA to pay those services. So this is a puzzle.

I got an answer back in February from your office, which was a nonanswer, saying that, "We will contact other Federal agencies for input and investigate the issue of barriers to timely payment."

And so today, I won't debate whether that was a nonanswer or not, but I would like to get your personal commitment that you will help Congressman Duffy and I engage with FEMA and drive an outcome on this where funds can flow to the Territories.

Secretary MNUCHIN. I would be happy to do that. I actually spoke to the Governor of Puerto Rico yesterday. We are very focused on opportunity zones there. We actually are, within Treasury, very involved in the finances of Puerto Rico. We negotiated a standby line in case Puerto Rico, through effectively its bankruptcy—what you are referring to—and I apologize. It was a nonanswer. I acknowledge it was a little bit of a form letter. The issues that you are fo-

cused on are issues of FEMA and HUD. I would be happy to speak to the Secretaries in DHS and HUD, Secretary Carson—

Mr. HILL. I think it would be helpful because I think at the sub-Cabinet staff level, we haven't made any progress. So, I appreciate your attention to that.

Turning to North Korea and sanctions, on March 5th, the United Nations Security Council released a report on sanctions compliance. It said that financial sanctions remain some of the most poorly implemented and actively evaded measures of the sanctions regime. Individuals in power to act as extensions of financial institutions of the DPRK operate in at least five countries with seeming impunity, and that includes to say diplomats of the DPRK in those countries. And, of course, diplomats have immunity when they are functioning as diplomats in certain countries.

My question to you is, how can we work with the U.N. sanctions regime and tighten financial sanctions on influence peddlers in China and in the diplomatic corps across the world with North Korea?

Secretary MNUCHIN. So my Under Secretary for TFI, she has recently traveled abroad to specifically talk about these issues, talk with financial institutions. We are very focused on money transfer items. We are focused on people doing money laundering. We are working very closely with the intelligence community on declassifying certain information and enhancing the U.N. sanctions with our specific sanctions against people who are trying to use the financial system. So, I assure you we are on top of that.

Mr. HILL. Thank you. I was pleased to see in The Wall Street Journal today that additional sanctions are being proposed for Venezuela, and I congratulate the President and our U.N. representative for getting a U.N. Security Council resolution on sanctions on North Korea with Russia and China's approval. So my question to you is, in our national security work, is there a possibility we could get a U.N. Security Council resolution in a similar way with Russia and China actually being constructive on Venezuela?

Secretary MNUCHIN. I can't comment on the outcome of a U.N. resolution. I can tell you I was personally involved in the North Korea situation, and the Chinese were particularly helpful in getting that done. I, personally, have had conversations with the finance minister in Russia about the situation in Venezuela. I have also had conversations with my counterparts in China. I believe that Secretary Pompeo has had similar conversations. So this is something we are very focused on.

Mr. HILL. Thank you, Mr. Secretary.

I yield back.

Mr. SAN NICOLAS. The gentleman from Georgia, Mr. Loudermilk, is recognized for 5 minutes.

Mr. LOUDERMILK. Thank you, Mr. Chairman.

And thank you, Mr. Secretary. I want to continue on the conversation about FSOC and SIFI designation, but before that, I want to congratulate you on making free trade advocates out of people who just in recent history have been totally opposed to free trade and never found a tariff that they didn't like. And so that gives me confidence from what I am hearing about some on the other side of the aisle that is in the majority at this point. It ap-



pears that we have free trade advocates which I think will pave the way for USMCA to get approved. So congratulations on achieving something. I remember, in the previous Administration, many in the other party were even opposed to the previous President trying to get some free trade agreements because they liked the tariffs. So I think we are making headway.

And also the obsession of some on this committee with the President's tax returns is not new. From the moment that he was inaugurated, there were some on this committee who began immediately calling for the tax returns. So I also want to say this: I am not expecting a particular answer from you. So, if you give something different than what I am expecting, I will let you answer. Okay?

Regarding FSOC and the SIFI designation process, I am usually supportive of it. I think it is important to relieve the regulations on especially those nonbank entities. In fact, I am working on re-introducing a bill from last Congress that actually passed the committee on a—and passed the House nearly unanimously.

So this is a bipartisan effort, and the bill would basically ensure that nonbanks, such as investment advisers and mutual funds, are not subject to the bank-centric stress test. Quick question, do you agree with that approach, that they should not be under the same stress test as the banks?

Secretary MNUCHIN. Yes, generally, I agree with that.

Mr. LOUDERMILK. Okay, and I appreciate that. What are the differences between the banks and nonbanks where it makes it where the stress tests are not appropriate for nonbanks? What are those differences?

Secretary MNUCHIN. Well, the biggest difference is that banks have taxpayer-insured deposits that create risk for the government.

Mr. LOUDERMILK. Okay. I appreciate that. I think if we can continue in our efforts to reduce the regulatory burden on a lot of our industries and understand that, even in the financial services arena, one size does not fit all, we will do more to benefit the cost to consumers than anything else we are doing.

Another topic that I want to address—and I appreciate the Administration starting to address housing finance reform. I do agree with the FHFA Director that Fannie Mae and Freddie Mac need to raise significant capital, but I strongly believe that we should start reforms in housing finance. How much housing finance reform can be done administratively?

Secretary MNUCHIN. I think a lot can be done administratively. We are working on that. We are also working on a report for the President, but I would also encourage there is an opportunity for Congress on a bipartisan basis to make some significant reforms. These were not entities that were intended to be under government control forever and funded by taxpayer money forever. So I would hope that Congress would look at this with us, but if not, we will do things administratively.

Mr. LOUDERMILK. So is the Administration willing to work with Congress to make some significant reforms?

Secretary MNUCHIN. Absolutely. I would look forward to working with this committee and others. This is a priority of ours.

Mr. LOUDERMILK. I am also encouraged that several private sector industries, mortgage insurers and reinsurers, for example, have a strong interest in absorbing risk from the GSEs. Does the Administration plan to expand the involvement of these types of private capital in the housing finance system?

Secretary MNUCHIN. Yes. Our fundamental view is that there should be risk capital in front of the government's money and whether that is a government guarantee on securities or Treasury lines, fundamentally there should be private risk capital that supports a liquid 30-year mortgage market.

Mr. LOUDERMILK. I appreciate that, and in my opinion, reform is not just relieving debt and walking away from it. I don't think that changes any behavior when you just relieve debt and you reward an agency for bad behavior. So, thank you. I look forward to working with you on these reforms and I appreciate you being here.

Secretary MNUCHIN. Thank you.

Mr. SAN NICOLAS. The gentleman from Minnesota, Mr. Emmer, is recognized for 5 minutes.

Mr. EMMER. Thank you, Mr. Chairman.

It's good to see you, Mr. Secretary.

Secretary MNUCHIN. Thank you.

Mr. EMMER. I appreciate your work to produce the report on nonbank financials, FinTech, and innovation last year. As you may know, after 5 months, the committee was able to get around to creating a FinTech Task Force, on which I am going to serve.

Can you give us an update on your work to implement some of the changes, and are there any specific urgent recommendations you have for Congress in this area?

Secretary MNUCHIN. Well, I just participated in—the FDIC hosted a Fintech conference. It was extremely well-received. We are working with the regulators on all these. We appreciate the work that you are doing. We look forward to sitting down and prioritizing what things you think you could get through on a congressional basis.

Mr. EMMER. Thank you.

How is the communication between other agencies like the CFTC, the SEC, and the OCC, and is there anything we can do to better facilitate communication to reduce regulatory uncertainty in this area?

Secretary MNUCHIN. I would say now versus 2 years ago, the communication is excellent between the people who run these regulatory entities, again, whether it is through the President's working group when we convene, whether it is informal sessions on issues. I have regular conversations. We have monthly calls. So I think the communication is excellent, and one of the things that all of the people who run these agencies are trying to do is make sure down through their agencies, the regulators, that the message is sent to make sure that they work together.

An example I would use is cyber, a very important issue. Different regulators should have cyber exams, but there is no reason that the OCC, the FDIC, and the Fed have to conduct three separate exams at different times. We are trying to get them to do that together. That's just one of the many examples.

Mr. EMMER. Right. Another report of the Treasury covered community bank and credit union relief. I have been hearing frequently from small community banks, particularly those that engage in banking from Minnesota's agriculture sector.

Are you hearing from these community institutions, and are there any statutory changes you would recommend to deliver more relief to keep rural communities growing?

Secretary MNUCHIN. We are very focused on the regulatory burden on community banks. As I have said before, I think, in many cases, these community banks understand their customers. They know their customers. They know how to underwrite credit. They are a very important part of our economy, so we want to make sure that they are not struggling in overburdened regulation, and there shouldn't be a one size fits all. Community banks don't need the same level of regulation as trillion-dollar global institutions.

Mr. EMMER. Secretary Mnuchin, I just want to thank you for paying particular attention to every financial institution or entity within the financial services food chain because, as your last statement and your testimony indicates, they are all important, whether it is the Main Street community bank or credit union, all the way up to some of the largest banks in the world that are here in the United States that service all kinds of things here and around the globe, we need them all, and we need to make sure that people on the street get access to the capital they need to grow new opportunities that not only benefit our local communities, but ultimately today's small business obviously is tomorrow's big business.

Secretary MNUCHIN. Thank you. I agree with you.

Mr. EMMER. Thank you, sir.

I yield back.

Mr. SAN NICOLAS. The gentleman from Colorado, Mr. Perlmutter, is recognized for 5 minutes.

Mr. PERLMUTTER. Mr. Secretary, good morning.

Just a couple of questions. First, you know, and you probably had it a dozen times, and I am just now coming into the hearing room—the tax returns are something that we have been seeking for a couple of years now and have tried to, through the proper procedures, bring them to the Floor based on the fact that every other President has released theirs. It has been a traditional—it is just sort of a matter of course. But then we have run into this stone-wall, which is how we perceive it.

And I understand—and I guess I didn't hear your testimony earlier, but the fact is that you hadn't seen a memo, but there was some sort of draft memo, is that right?

Secretary MNUCHIN. I was just contacted by The Washington Post 2 days ago. We heard about it—I first saw it this morning in the paper and, yes, it is some draft memo that never did get to us.

Mr. PERLMUTTER. Who drafted it?

Secretary MNUCHIN. I have no idea. We are looking into that.

Mr. PERLMUTTER. Okay. In your dealings with the President, has he asked you just to hold the tax returns and not—

Secretary MNUCHIN. I have never had any conversations with the President or anybody in the White House about what we are doing with his tax returns.

Mr. PERLMUTTER. Okay. So this is all within the Treasury that you are making certain decisions and—or not?

Secretary MNUCHIN. Treasury, IRS which is within the Treasury, and the Department of Justice (DOJ). We have consulted DOJ, who are effectively our lawyers.

Mr. PERLMUTTER. How has the—at least the tradition of every other President releasing their tax returns, how has that played in your decisionmaking?

Secretary MNUCHIN. It hasn't played into my decision at all. I think that is an independent decision of the President. The American public knew that he wasn't releasing his tax returns prior to voting for him, and they made that decision. That to me is a personal decision of his and the American public. I have nothing to do with that.

Mr. PERLMUTTER. Okay, and I guess, from our perspective, obviously, we think there's something that is being withheld or covered up, but until we actually see it, till you release it, till a court orders it, we are not going to know; it is going to be all supposition on our part. And that is just the way it is. So I am going to change the subject because—

Secretary MNUCHIN. Thank you.

Mr. PERLMUTTER. —really, you and I were sort of adversarial on Deripaska—or however you say the guy's name. I don't want to do that. I want to talk about marijuana.

Secretary MNUCHIN. Thank you, I appreciate that. It is rare that I would say I would prefer to talk about marijuana than those other two subjects, but I am happy to.

Mr. PERLMUTTER. Mr. Secretary, and thank you, obviously, FinCEN and the Treasury have been willing to work with us as we have moved this subject forward. And I would advise you, sir, that, at this point, we have had a hearing. We have now had a markup. We passed the bill out of this committee, 45 to 11, I think, or 45 to 15, 34 Democrats, 11 Republicans. It is now going to eventually get to the Rules Committee and to the Floor, and we have included the FinCEN guidance as part of the legislation.

So I don't know if you are familiar with how this thing is proceeding, but again, the basis is to try to get the cash off the streets. For me, it is a public safety kind of a matter, and I don't know if you all have been talking about it or if you have been following this at all.

Secretary MNUCHIN. I have been following it, and first of all, I appreciate what you are doing on this. I have testified before that this is an issue for Congress to decide. We have a big problem, and the problem is there is a Federal law and there are State laws, and from our perspective at Treasury, we are caught in the middle of this, both from the standpoint of the IRS, where we have to build cash rooms to take in cash, and from the banking sector. And I would encourage Congress to address this issue. It has to be resolved one way or another, but it is not in anybody's interest to have this amount of cash on the streets, which, obviously, will just end up in illicit hands in a bad part of the economy and things that are unsafe. I can tell you that we are having an interagency review on your bill, but in one format or another, this is an issue for Congress to address one way or another.

Mr. PERLMUTTER. And I want to thank you. I want to thank you, and I want to thank the Department and a number of your regulators because you have been working with us. As we have moved this along, we have made some modifications based on suggestions, and we will continue to press this forward. I know it is going to pass the House, and then we will see where it goes from there.

I thank you, and I yield back.

Mr. SAN NICOLAS. The gentleman from Illinois, Mr. Foster, is recognized for 5 minutes.

Mr. FOSTER. Thank you, Mr. Chairman.

I am going to raise the issue of the pending debt crisis, the potential default. What is the best estimate for when that may happen if we continue on with business as usual?

Secretary MNUCHIN. I haven't given it an exact date, but I would say it is late summer. And I share your concern, and I would urge Congress to raise the debt ceiling as soon as possible.

Mr. FOSTER. Are you familiar with the Treasury report on the macroeconomic effects of the debt ceiling brinksmanship?

Secretary MNUCHIN. I don't think I need the report to know the impact, which would be quite significant.

Mr. FOSTER. Were you in finance at the time and during the 2011—

Secretary MNUCHIN. I was. And let me just say that I had a meeting with the Big Four yesterday, and I raised the issue of the debt ceiling with them. And, again, I would urge Congress to raise the debt ceiling. We should have a situation where, when we commit funds, we commit that we have the capacity to borrow. So I have no issue with—Congress should have the ability to control borrowing and have the control of spending. But these things should be done at the same time.

Mr. FOSTER. I concur on that. The whole situation is sort of analogous to refusing to pay for a meal after you have eaten it. But, actually, without objection, I would like to enter into the record the Treasury report entitled, "The Macroeconomic Effect of Debt Ceiling Brinksmanship," dated 2013, so—

Mr. SAN NICOLAS. Without objection, it is so ordered.

Mr. FOSTER. And I urge you to have a look at it. It is just a few pages. It goes through the drop in consumer confidence, small business optimism; S&P 500 took a hit; the VIX spiked; corporate bond spreads, mortgage spreads. It was just bad. You know, household net worth, the wealth of American families dropped by more than, I think, multiple trillions of dollars. This was a big deal when it happened, and yes, there is a danger of it recurring.

Yesterday, I introduced a bill that would just clean repeal of the debt limit so that we would actually use the budget rather than the debt limit to limit spending, and I am not going to ask you to opine on any specific thing. I understand there isn't really a consensus on the issue, and I personally remain committed to working in a bipartisan manner.

There are proposals that were hammered out in the bipartisan policy group that would give cover to a number of Republican members who want to, sort of, at least maintain some sort of fig leaf. These are proposals that would defuse the issue, basically defang

it so that, although it would technically still be there as a threat, it would just effectively not—be so unlikely to be triggered.

And so I was wondering if you would consider supporting proposals or maybe even taking leadership and trying to hammer out some sort of bipartisan permanent fix so that this thing doesn't come up again and again?

Secretary MNUCHIN. I would be pleased to meet with a bipartisan group. We would also be pleased to provide technical assistance. Again, in one format or another, the debt limit shouldn't be used as hostage to other things. So I am fine with keeping the debt limit as long as we have a mechanism that we kind of do these things simultaneously.

Mr. FOSTER. Some mechanism where it would never be the limiting factor that would cause us to default?

Secretary MNUCHIN. Well, as you said, so we don't end up—you used the example of you had the meal. I think it is more like: We had the meal. We left the restaurant. We don't want to pay the credit card bill.

Mr. FOSTER. Do you have confidence that the market will react appropriately, or is there a danger of overreacting if we threaten to default on our debts?

Secretary MNUCHIN. I have confidence that this Congress will not let that occur. From my meetings with senior leadership, everybody understands this issue, and I surely hope we never get to the point in late summer where we are even contemplating these things.

So that was one of the topics we talked about yesterday, and I would hope, for the benefit of the American people, we raise the debt limit soon.

Mr. FOSTER. Thank you.

I yield back.

Mr. SAN NICOLAS. The gentlewoman from Michigan, Ms. Tlaib, is recognized for 5 minutes.

Ms. TLAIB. Thank you so much, Secretary Mnuchin, for being here.

I would like to ask you about the announcement this past March that the Treasury Department will allow companies to offer employees and current retirees a lump sum payment for their pensions instead of paying out the lifetime guarantee that employees expected.

In Michigan, the Office of Retirement Services lists over 280,000 retired employees who participate in public employee pensions. That is a lot of people, and this move by your Department will have a huge impact on the retirement savings of my residents in Michigan's 13th Congressional District.

Do you believe that lump sum retirement payments shortchange our retirees as they would be getting far less than they would have received over time with their pensions?

Secretary MNUCHIN. Let me just comment, I pride myself that I am on top of a lot of issues in Treasury and in the pension area. I am focused on the multi-employer pensions and others. This is not an area that I am up to speed on. So I will follow up with you and get back to you.

Ms. TLAIB. Yes. I would recommend that you look at the Government Accountability Office, who reported that retirees who take

lump sum payments could see their assets drop, and Forbes estimates that by choosing the lump sum payment, retirees could receive a staggering 20 to 30 percent less than what long-term pensions would provide.

Do you currently have any rules—and maybe you can ask your staff behind you—or do you plan to implement any rules that require companies to disclose this information to retirees?

Secretary MNUCHIN. We are, unfortunately, not sure specifically what you are referring to, but we would be happy to follow up with your staff today.

Ms. TLAIB. It is a decision the Department, your Department that you oversee, in March made a decision to allow lump sum payments for retirees.

Secretary MNUCHIN. You may be referring to the PBGC, which I am a board member of, so let me—again, we would be more than happy to follow up with you for clarity.

Ms. TLAIB. Thank you so much.

Your Department is also responsible for implementing the Employee Retirement Income Security Act, correct—are you familiar with that, before I continue?—which is designed to protect and preserve pensions.

Do you think cutting benefits by 20 to 30 percent is a threat to pensions? You can answer that without actually referring to the rule.

Secretary MNUCHIN. Well, obviously, the pension issue in this country is a very serious issue and, particularly, the serious issue with the PBGC in taking over pensions. I will tell you, as it relates to this rule, Treasury's role is purely mechanical in that people apply to us for this. We run the tests and then determine whether it fits the tests and then go to a vote. It is not a subjective issue.

Ms. TLAIB. What my residents are also really concerned about though, Mr. Secretary, because with the huge amounts of profit that corporations are making off of these lump sum payments that you should be aware of, Michigan's Whirlpool Corporation, for example, estimated that these payments would cut \$39 million off of its pension obligations.

I want to ask you if your Department will look into any plans that would require companies, again, to disclose their profit at the employee's expense when they shift to lump sum payments?

Secretary MNUCHIN. We would be more than happy to look into that and get back to you. And as I said, the PBGC issue, and pension reform, is a significant issue.

Ms. TLAIB. Thank you. I would like to discuss one last issue, if I may. U.S. pension plans with assets in Peruvian reform bonds—many workers and retirees in Michigan, Mr. Secretary, have pension plans that are invested in these bonds. And, unfortunately, the Peruvian government has not paid the U.S. investors the debts they owe. This negatively impacts workers in Michigan.

In the 13th Congressional District, about 30,000 people are in danger of losing a big portion of their retirement funds with the government of Peru owing them over \$34 million. Are you aware of that?

Secretary MNUCHIN. I am broadly aware of it, yes.

Ms. TLAIB. What actions in your Department are you going to be taking in regard to solving this issue?

Secretary MNUCHIN. Well, again, this is not the only situation where pensions buy foreign government debt. There are other areas. And we assist the pensions although it is not our obligation to enforce it, but we do assist in these areas.

Ms. TLAIB. Well, you know this. U.S. investors purchase these bonds in good faith and expect that the Peruvian government would uphold their end of the agreement, and I hope you will do something about it.

I would be remiss as somebody who truly believes in the rule of law, as somebody who has practiced law and is an attorney—I would advise you, Mr. Secretary, to get personal legal advice because the cover-up by this Administration goes beyond just providing the taxes. You can consult the Department of Justice, but you personally making decisions not in the best interest of the American people, but to cover up the occupant of the White House, I think you need to be very, very clear about what your role is and what your responsibility is to the American people.

This goes beyond just providing taxes, right? It is about transparency and the fact that no one is above the law. So, Mr. Secretary, please seek out legal advice personally of what your obligations are because the Department of Justice is not protecting you; it is protecting the President.

Chairwoman WATERS. The gentleman from New York, Mr. Zeldin, is recognized for 5 minutes.

Mr. ZELDIN. Thank you, Madam Chairwoman, and thank you to Secretary Mnuchin for being here today.

One thing that comes up in this committee a lot when we are talking about effective policy is that a one-size-fits-all approach usually doesn't work. This may sound like another boring D.C. policy debate, but in my district on Long Island, imposing regulations meant for large international multibillion-dollar banks on a small community lender or the same capital standards meant for a massive international insurance giant on a small, family-owned broker is not helpful.

This subjective style of regulation that isn't tailored to the size of a company translates directly to less credit, higher premiums, and less opportunity for homeowners and businesses and hard-working families. That is why I want to start off by saying I appreciate your work at FSOC to formalize an activities-based approach for addressing systematic risk.

I commend you for moving away from the arbitrary designation of certain firms as risky, which is what the last Administration did enthusiastically, and instead focusing on actually protecting markets and consumers from real financial risk by dropping the questionable one-size-fits-all approach.

Mr. Secretary, last week, your colleague at the Financial Stability Board, and its current Chairman, Governor Randal Quarles, received a letter from 42 bipartisan Senators regarding concerns about an ongoing attempt by bureaucrats in Brussels to export European insurance regulations around the world and into the United States.



We then echoed those concerns in this committee during last Thursday's hearing. The European model is another perfect example of an arbitrary one-size-fits-all approach that would not work in our country where we have 50 different States with 50 different markets that suit the needs of local consumers.

I appreciate your commitment to protecting U.S. sovereignty in the State-by-State system in any negotiations where Treasury is taking the lead.

The most important goal is to ensure the U.S. insurance regulatory system is deemed outcome equivalent. That means our system and, most importantly, our companies that are creating jobs in the U.S. can be competitive in a global marketplace but not subject to European standards that don't make sense for American companies or consumers. This is a priority nationwide and in my district for the local brokers who are insuring our farmers, our fishermen, and our working families.

What I would really appreciate from you today is an update on some of these international negotiations and what you are doing to prioritize American consumers. How can we put America first but also open up markets overseas for American companies that want to be competitive abroad?

Secretary MNUCHIN. Thank you. On the international insurance issue, I just did give a significant speech last week on this. We would be more than happy to get a copy of it to you. Team USA, which is what we call the interagency group of the regulators working with the Europeans, are very much focused on defending the U.S. State-based regulatory system.

Mr. ZELDIN. Thank you. We are here in this committee having an ongoing debate about how hardworking Americans are going to have access to the American Dream and how to keep our booming economy growing so it can continue to deliver opportunities for prosperity to all. We all have to work together to keep our system competitive in the global economy but always put the needs of American consumers and businesses first. There are tremendous opportunities for American companies, including companies in my district, as we look abroad for those opportunities all throughout the entire world.

On a personal note, I want to say thank you. You staffed up quickly when you took this position, and incredibly, there are a lot of really high-quality people at the highest levels of your agency, and it has been fantastic to work with all of them. So I just want to thank you for making them an open resource because I am confident, not just as a New Yorker, not just as a member of the House Financial Services Committee, but as a Member of Congress that I am able to go to any one on your team on any calls, any question. It helps me represent my constituents as effectively as possible. So thank you for bringing in the best of the best to fill these important positions.

Secretary MNUCHIN. Thank you for the recognition of our team because many people, some of whom are here with me today, have given up very big careers to come and serve the government and are proud of being part of Treasury. So, thank you.

Mr. ZELDIN. Thank you.

Thank you, Madam Chairwoman, and I yield back.

Chairwoman WATERS. The gentleman from Minnesota, Mr. Phillips, is recognized for 5 minutes.

Mr. PHILLIPS. Thank you, Madam Chairwoman.

And greetings, Mr. Secretary. I come from the great State of Minnesota, home to a lot of farmers and particularly from the Third District, the district I represent, home to a lot of multinational corporations from Cargill to Polaris and a number in between.

And as you can imagine, I am hearing from all of them on a weekly basis with concerns about trade policy and other things right now, but I want to begin with just a quick question for you, as you reflect on your first 2 years in your role, is there anything as you look back that you might have done differently or anything from the Administration's perspective that might have been done differently?

Secretary MNUCHIN. Broadly, I would say no. We have been incredibly busy across a large range of issues. So, broadly, I would say no. We are pleased—

Mr. PHILLIPS. Anything?

Secretary MNUCHIN. Nothing that comes—I am sure there are small things here and there that, with experience, we may have changed.

Mr. PHILLIPS. Quick question about OFAC, approximately how many people work at OFAC with the Treasury Department? Do you know that number?

Secretary MNUCHIN. We have several hundred people in OFAC.

Mr. PHILLIPS. And how many dedicated to the Western Hemisphere and Cuba, particularly, roughly?

Secretary MNUCHIN. Well, the way we manage these teams is they are not necessarily—we move the resources around, whether it is North Korea, whether it is Russia, whether it is Iran. We tend to move all these resources. So it is a team—

Mr. PHILLIPS. So, not dedicated to certain regions. Okay. As you surely know, farm income is down substantially, over 50 percent in the last 4 years. I'm curious, why would we not open up Cuba to agricultural trade and help our farmers right now?

Secretary MNUCHIN. Well, the number one reason we wouldn't do that is that Cuba is probably the single biggest problem with Venezuela today. They effectively have a national police there. The situation in Venezuela is just horrible. I convene these meetings, the economic situation—this is a rich country. The people are starving, and Cuba is a major reason for that.

Mr. PHILLIPS. Which I agree, so hopefully when Venezuela is resolved, is that a possibility? We might allow our farmers to sell product to Cuba?

Secretary MNUCHIN. You know, I would think, okay, that if Cuba changed their bad activities, that would be an incentive for them and a possibility. So, again, the reason why we have the current Cuba policies is because of the way they are behaving.

Mr. PHILLIPS. Okay. My next question is about our China tariffs, and Polaris is an example of a corporation in my district being significantly impacted, probably \$150 million to \$200 million to the bottom line because of our policy right now. What do I tell companies like Polaris, and what is the end game? How can I commu-

nicate why this policy is in our best interest and in their best interest?

Secretary MNUCHIN. Well, first of all, I speak to literally probably a hundred different CEOs. So I would be more than happy to speak to the CEO of Polaris if it is impacting them. If you get me their contact information, I actually find it interesting speaking to people.

Mr. PHILLIPS. And I would welcome it.

Secretary MNUCHIN. The President has been very clear. He wants fair trade, and we made enormous progress. Ambassador Lighthizer and I have literally spent the last 6 months negotiating a detailed agreement that would take up this whole book, as I have said, going word by word by word.

I publicly said I thought we were close to an agreement. We were beginning to set up a date for the two Presidents to meet and a signing ceremony. I think it would have been the most—the biggest change in their economic relationship that we have ever had, it would have been great for our farmers, for our companies, for our American workers, and, unfortunately, China has taken a big step backwards.

Now, sometimes you have to go backwards before you go forwards. So I am still hopeful we can get back to the table. The two Presidents will most likely see each other at the end of June. I can tell you the President is very focused on farmers. The idea is not to have tariffs; the idea is for them to treat our companies fairly.

Mr. PHILLIPS. My last question is about our national debt and deficit. I am gravely concerned. I wish this institution was as concerned as I am. I would welcome your thoughts about what you think this nation needs to do relative to our fiscal policy and the risks inherent in the current status quo.

Secretary MNUCHIN. Well, as I said, when we designed the President's economic plan coming in, the number one issue was growth, that we have to grow our way out of this; we can't cut our way out of this. I think the good news is we have achieved this growth, and we are way on our way to sustainable growth.

Having said that, we also have to be conscious of expenses. Yesterday, I met with Mick Mulvaney and the Big Four in trying to reach an appropriate 2-year budget caps deal. We are happy to do that if the numbers are prudent. I think that the debt—we have to be careful of the debt-to-GDP ratios. In the prior Administrations—in the Obama Administration and prior to that, the debt has doubled.

Some of that was as a result of costs in the Middle East. Some of that was as a result of fiscal policies. But I share your issue that right now our debt is fine, but we have to be careful that it doesn't continue to grow disproportionately to GDP.

Mr. PHILLIPS. So you share my concern?

Secretary MNUCHIN. I do.

Mr. PHILLIPS. Okay. Thank you. Thank you, Mr. Secretary. I yield back.

Chairwoman WATERS. The gentleman from Massachusetts, Mr. Lynch, is recognized for 5 minutes.

Mr. LYNCH. Thank you, Madam Chairwoman.

Madam Chairwoman, I would like to use my time for the purpose of a question of order before this committee.

Madam Chairwoman, this witness, the Secretary, has been requested by the House to deliver to Congress certain documents that are pertinent to a legitimate inquiry before this committee. And my question is, basically, where the statute says that the Secretary shall deliver such documents and does not anticipate or embody any consideration regarding discretion on the part of the Secretary, would it be in order before this committee to hold the current witness, the Secretary of the Treasury, in contempt of Congress? That is my inquiry, and I would love a response.

Chairwoman WATERS. Thank you very much, Mr. Lynch.

The question that you have put before this committee is one that we are unable to address at this time. We will take your question to the General Counsel, and we will put it in writing, and we will seek an answer from him or her about what our next step could or should be, given the way that you have described what you think may be contempt based on what the law says. So, we will move forward with that as quickly as possible.

Mr. LYNCH. If I might just add, Madam Chairwoman, the tactic of this Administration and the strategy of this Administration has been to circumvent the oversight responsibility of Congress and to basically negate the constitutional power that we have as a body by, in my opinion, unlawfully refusing to deliver pertinent information to an active inquiry before this committee and others, and that for us to continue to allow that delay to occur without meaningful consequences will cripple our democracy and be contrary, I think, to the Constitution itself.

So I am hoping that counsel can act expeditiously so that we can actually respond to whether or not the Secretary is, indeed, conducting his job in contempt of Congress.

Chairwoman WATERS. Thank you very much, Mr. Lynch. I think everyone who has read the information that is available to us about the responsibility—

VOICE. Time—

Chairwoman WATERS. I beg your pardon. The time has ceased for us to have this colloquy, but we will take the information directly to the General Counsel. Thank you.

Mr. LYNCH. I yield back.

Chairwoman WATERS. The gentleman from California, Mr. Vargas, is recognized for 5 minutes.

Mr. VARGAS. Thank you very much, Madam Chairwoman.

Before I yield to Mr. Cleaver, I would like to say to the Secretary that I did read the story about your father and Jeff Koons. I have to say it was a delightful story. I have never met your father, but after reading about him, he must be a great guy.

Secretary MNUCHIN. Thank you. And I would just say, for the record, he didn't buy it for himself; he bought it for a customer.

Mr. VARGAS. No. It was very clear in the article, but again, just reading about him and his successful career in business, and then his enthusiasm for art, was a very happy reading for me. I just want to say that.

But I do want to yield to Mr. Cleaver. Mr. Cleaver?

Mr. CLEAVER. Thank you, Mr. Vargas. Mr. Secretary, just one short question. When you were here last—I represent Kansas City, Missouri, and the rural areas around it, about 125 miles away from the City—I asked you about soybeans. And you responded that there had been a very large purchase—your exact quote was, “a very large order while we were negotiating; they have committed significant orders in soybeans.”

So I responded, “Already?”

And you said, “Yes, already.”

I was excited about it, and so I started sharing that information to reporters and people back home, and my staff followed up the next day, and the next day, when I raised the question, you talked to some of the gentlemen behind you, and we can find no such orders that have been made, and it put me in a really awkward situation. I am sure you misspoke, but something needs to be done—I think you need to acknowledge that you misspoke. I have your exact comments here. I don’t want to be nasty. I just want you to know that you put me in an awkward situation.

Secretary MNUCHIN. Am I allowed to respond to that?

Mr. CLEAVER. Yes. It is Mr. Vargas’ time.

I yield back.

Secretary MNUCHIN. I don’t believe I misspoke. I apologize that my staff didn’t get you the information. We will share it with you.

I will tell you that, since the recent actions of trade—

Mr. CLEAVER. Mr. Secretary, I hate to interrupt you. This is Mr. Vargas’ time. I have your exact quote of what you said. I am not trying to be mean or nasty, but when you tell me that I made a mistake, that is creating a whole new environment that I don’t want to go into. And all I want you to do is just acknowledge that you misspoke and that you are going to get the correct information out.

And if you say you didn’t misspeak and you are not going to get the important information out—I yield back to Mr. Vargas. I don’t want his time running out, Madam Chairwoman.

Mr. VARGAS. I do want to make sure that you have time to respond, Mr. Secretary, if you would like to respond to that.

Secretary MNUCHIN. Well, I just—I apologize. I wasn’t implying you made a mistake. So, we will follow up with you this afternoon to clarify exactly what I said and get you the information. So, my apologies.

Mr. CLEAVER. Thank you.

Mr. VARGAS. Reclaiming my time, I know that—Mr. Secretary, again, thank you for being here. I know that you have already been asked about this, but I have to ask again about Chairman Neal’s request. I think it does have a legitimate legislative purpose. I believe that you may not have been aware of the draft memo from the IRS, but certainly I wasn’t, and now it has come out. And it seems to be somewhat clear that we do have the ability and the right to have that information. Again, I want to follow up. Are you, once again, going to take a look at it in light of this memo?

Secretary MNUCHIN. I will take a look at the memo. I had not seen it until this morning. We didn’t receive it. It was in The Washington Post. So, obviously, we will take a look at it. To the

extent it changes our analysis for whatever reason, we would recognize that.

Again, I think this is a very important issue. I would just say we have tried to be responsive to Congress on hundreds, if not thousands, of requests for information. On this one request, we have been advised that there are different legal views, and this is why it will most likely go to the third branch of government. And if the third branch of government opines on Congress' right, then we would obviously supply the document.

Our issue is we want to make sure that the IRS is not weaponized for any party, and as I said, we have been advised based upon constitutional issues, that it is not legal for us to pursue it. And we are—this has nothing to do with anything else.

Mr. VARGAS. Okay. I do hope you go and review it again because I think this memo makes it clear that we do have a right to this information. My time has expired, but thank you.

Again, say hello to your father for me.

Chairwoman WATERS. The gentlewoman from Massachusetts, Ms. Pressley, is recognized for 5 minutes.

Ms. PRESSLEY. Thank you, Madam Chairwoman.

And thank you, Secretary Mnuchin, for joining the committee again here today. I do believe our diversity is our greatest strength and arguably the greatest contributor to our economy. Mr. Secretary, do you believe that representation matters in American politics and imagery?

Secretary MNUCHIN. I'm sorry, what was the last part, American politics and—

Ms. PRESSLEY. And imagery. Do you believe that representation matters in American politics and imagery?

Secretary MNUCHIN. Yes.

Ms. PRESSLEY. I am so glad we agree. A few years ago, Secretary Lew put out a call to the American people soliciting feedback on ways to modernize our Nation's currency. In April 2016, following long-time organizing efforts from several grassroots organizations, he announced a currency redesign overhaul that would more accurately reflect the diversity of our society.

The American people understood the importance of representation on the bank notes of the world's most powerful economy, representation that acknowledged our history and all those who have contributed.

Mr. Secretary, yes or no, do you believe people other than white men have greatly contributed to this country and its history?

Secretary MNUCHIN. Yes.

Ms. PRESSLEY. Great.

After 10 months of soliciting and analyzing responses, Secretary Lew announced that Harriet Tubman would be featured on the front of the new \$20 bill. As it stands currently, our currency does not reflect the diversity of individuals who have contributed to our great American history. He followed the announcement by directing the Bureau of Engraving and Printing to accelerate plans for the redesign, so the final design concepts would be unveiled in 2020, the 100-year anniversary of the 19th Amendment, which granted women the right to vote, which we celebrated yesterday.

As you know, 2020 is only 1 year away, and since Secretary Lew's departure, we have not heard anything regarding the status of the currency redesign. Will the redesign meet the 2020 deadline? Yes or no?

Secretary MNUCHIN. Let me comment that the primary reason we have looked at redesigning the currency is for counterfeiting issues. Based upon this, the \$20 bill will now not come out till 2028; the \$10 bill and the \$50 bill will come out with new features beforehand.

So the answer is it is my responsibility now to focus on what is the issue of counterfeiting and the security features. The ultimate decision on the redesign will most likely be another Secretary's down the road.

Ms. PRESSLEY. I'm sorry. I just want to be clear for the record. So you are not—so, yes or no, will you meet what was originally the 2020 redesign deadline? Yes or no?

Secretary MNUCHIN. Again, to be clear, the redesign that we are focused on—

Ms. PRESSLEY. That is a no.

Secretary MNUCHIN. No. We will meet the security feature redesign in 2020. The imagery feature will not be an issue that comes up until most likely 2026.

Ms. PRESSLEY. I am just wondering if you can explain that to me, because after an exhaustive community process, where people who organized for quite some time and you said you do share my sentiments and opinion that our currency should be more reflective of the contributions and diversity of those contributions, and so why the delay?

Secretary MNUCHIN. Okay. I didn't say that the currency should be reflective.

Ms. PRESSLEY. Well, you said imagery.

Secretary MNUCHIN. I said imagery, not referring to currency—referring to lots of things.

Ms. PRESSLEY. Okay. So do you believe that—do you support Harriet Tubman being on the \$20 bill?

Secretary MNUCHIN. I have made no decision as it relates to that, and that decision won't be made in, as I said—

Ms. PRESSLEY. But there was a community process, there was a national—there was a community process.

Secretary MNUCHIN. Again, it is a decision of the Secretary of the Treasury. Right now, my decision is focused on security features.

Ms. PRESSLEY. Well, let me just say this: The occupant of the White House, Donald Trump, said that the move to put Harriet Tubman on the \$20 bill was pure political correctness, and he, in fact, suggested putting her on a \$2 bill. So do you agree that nearly a year of collecting responses from across the country can simply be reduced to political correctness?

Secretary MNUCHIN. I think that, right now, I am focused on the security features of the U.S. currency, which is the reserve currency—

Ms. PRESSLEY. Reclaiming my time, so does that mean you have no intention of executing the redesign as planned by your predecessor?

Secretary MNUCHIN. Well, that is correct. I have not made a decision to execute on a redesign or haven't made a decision, but yes, I have not made a—

Ms. PRESSLEY. Can you commit to submitting a currency redesign timeline to this committee?

Secretary MNUCHIN. Again, the currency timeline will be most likely 2026, which even in the most optimistic scenarios is probably beyond my term.

Ms. PRESSLEY. And do you believe that—is it your personal opinion, then, since you won't offer it officially, that our currency should reflect the diverse representation of leaders who have contributed to this country, since you agree it has been more than just white men?

Secretary MNUCHIN. Again, I can't separate my personal opinion on these issues from the issue of the Treasury Secretary—

Ms. PRESSLEY. So what is your position as the Treasury Secretary?

Secretary MNUCHIN. Again, my position is that I am focused on my responsibility to deal with the security features in a decision—

Ms. PRESSLEY. Okay. You have addressed that, and what about imagery? What about the representation?

Secretary MNUCHIN. Again, it is not a decision that is likely to come until way past my term, even if I serve the second term for the President. So I am not focused on that at the moment.

Ms. PRESSLEY. I yield back.

Chairwoman WATERS. The gentlewoman from California, Ms. Porter, is recognized for 5 minutes.

Ms. PORTER. Hello, Secretary Mnuchin. Thank you for being here.

In June 2017, the Treasury issued a report on banking deregulation suggesting that if Congress raised the \$50 billion threshold above which U.S. banks have stricter oversight, that it ought to do the same thing for foreign megabanks. And last month, the Fed took this cue, and they massively deregulated foreign megabanks. And this was on a wish list that you had suggested would be an improvement.

There is a lot to be concerned about with this, but the most glaring thing is that now Deutsche Bank would only have to file their living will once every 6 years. And that is the same Deutsche Bank that had a surprise \$3 billion quarterly loss.

Based on your oversight of Deutsche Bank, which led you to believe it was appropriate to deregulate them, how did Deutsche Bank manage to lose \$3 billion and not see it coming?

Secretary MNUCHIN. Well, I appreciate your concerns.

Let me just say what we are focused on is the U.S. subsidiary, and—

Ms. PORTER. I understand. Reclaiming my time, I understand.

Could you respond specifically to how did they—how the hell do you lose \$3 billion and not see that coming?

Secretary MNUCHIN. Well, I hate to say it, but there were a lot of people who lost \$3 billion and didn't see it coming.

Ms. PORTER. We don't want to repeat that, you would agree.



Secretary MNUCHIN. I surely don't. I can tell you I am familiar with some of their really bad investments, and I find it hard to believe that they made them.

But, yes, it is a staggering amount of money, we would agree on that.

Ms. PORTER. And Deutsche Bank has failed its stress test in 3 of the last 4 years, was fined for a New York trading scandal involving laundering with Russian oligarchs, admitted to participating in a LIBOR interest rate scandal, and violated U.S. sanctions against Iran, Libya, Syria, and the Sudan.

Most recently, it came to light that Deutsche Bank had failed—excuse me—had willfully decided to ignore suspicious activity reports (SARs) with regard to the President and his son-in-law.

Why is Deutsche Bank—what is your plan to hold Deutsche Bank responsible for failing to do appropriate oversight and respond to the regulatory controls that are in place with regard to SARs?

Secretary MNUCHIN. Well, let me just say the SAR issue I did read in the paper. I am going to have FinCEN follow up and make sure that Deutsche Bank, as anyone else, has SARs policies that are on everyone. So I am not aware of whether this is true or not true. But we will have FinCEN follow up.

I go back to our obligation as U.S. regulators—

Ms. PORTER. Excuse me. Would you be willing to respond back to this committee as to whether that did or did not, in fact, occur?

Secretary MNUCHIN. I understand that we can't comment publicly on SARs, but we will follow up with the committee to make sure that we have done a compliance oversight and whatever the result is we are comfortable with.

Ms. PORTER. Are you planning to ask the German banking authority to also do additional oversight of Deutsche Bank, especially given that we now regulate them much less than we used to?

Secretary MNUCHIN. Well, again, the U.S. entity, we will regulate considerably. So the U.S. entity, with intermediary holding companies, we will be comfortable that the U.S. company doesn't jeopardize the U.S. financial system.

In my conversations with the Europeans, yes, I will speak to them and make sure that they are properly regulating the parent entity. And I know the Germans share our concerns.

Ms. PORTER. I wanted to ask you about FSOC's hedge fund working group. I had a conversation with Mr. Powell about that. FSOC's last annual reports in 2017 and 2018 included in each report 400 words about the 9,000 hedge funds registered in the United States which collectively have \$4 trillion in net asset value. That is \$10 billion in asset risk per word of analysis from FSOC. And those words are: The Council recommends that relevant agencies continue to review their data collections and assess whether they are sufficient to allow the Council to monitor whether and how private funds may pose risk to financial stability.

Why is FSOC just copying and pasting the same recommendations on hedge funds in 2017 and 2018? Do you not have enough staff at FSOC to prepare updated content? The last product to come out of the FSOC working group was in 2016. You are repasting the same financial recommendations even as the markets

are changing and the risks that hedge funds are facing are changing.

In the 2019 report, will I see that identical 400-word content, or is the working group going to do some work and mix it up a little?

Secretary MNUCHIN. I very much appreciate your comment. I acknowledge that that is a lot of assets per word. We have talked about hedge funds. I believe you are right. This doesn't reflect, and we should not be copying and pasting. And we will update that appropriately.

Ms. PORTER. Thank you very much.

Secretary MNUCHIN. Thank you for bringing that to my attention.

Chairwoman WATERS. The gentleman from Texas, Mr. Gonzalez, is recognized for 5 minutes.

Mr. GONZALEZ OF TEXAS. Thank you, Madam Chairwoman.

I have a few questions regarding debt distress, which is quickly rising in Africa and Latin America. I come from the great State of Texas, and I represent one of the border districts, where we are dealing with the grave refugee situation on our border. And we are really concerned about Central American countries fueled by opaque loans from China, many lending institutions, especially those associated with China's Belt and Road Initiative.

China has shown little interest in joining established multilateral mechanisms to coordinate forces on bilateral debt, let alone write them down, if needed, as major advanced economies have done for years.

How likely is it that these countries are heading for a debt crisis? And how difficult will it be to resolve one if it happens?

Secretary MNUCHIN. I share your concerns. I have made some comments already, but I will repeat them, which is we are very much working with our allies at the G7 and the G20 on this issue. We very much support debt transparency. And if China wants to lend, they should lend on the basis of everyone else with debt transparency. We are encouraging them to join the Paris Club. I think that would be important. We are working through the IMF and World Bank.

So, this is an issue. I share your concerns. And it is very topical and timely.

Mr. GONZALEZ OF TEXAS. What are we doing with the IMF in order to have them pressure China to adopt global norms and practices? Are we doing something in that regard?

Secretary MNUCHIN. We are at both the IMF and the World Bank where my previous Under Secretary, David Malpass, this is one of his big priorities. And I personally had conversations with the governor of the People's Bank and other senior people there on debt transparency. The French are leading an effort on this. There is a lot of unity on this issue.

Mr. GONZALEZ OF TEXAS. I am concerned internationally, but particularly in Latin America, as my district is impacted directly.

Do these developing countries have the tools, including internal governance systems, that will enable them to appropriately evaluate the wisdom of the China Belt and Road Initiative and other projects? And if not, what are we doing to try to engage that issue in itself?

Secretary MNUCHIN. Well, this is an important area of Treasury where we provide technical assistance. And this is a specific area where I think, without spending a lot of money, it is very, very impactful working with these governments, that they understand what they are taking on.

And without me saying a specific country, I can tell you right now, as part of an IMF program, that we are contemplating, as part of that, there had been discussions about debt repayments and everything else. So I can assure you this is a timely topic that this Administration is highly focused on. I appreciate your focus on this.

Mr. GONZALEZ OF TEXAS. What is the IMF trying to do behind the scenes to get China to come clean on its Belt and Road Initiative? Are they doing anything?

Secretary MNUCHIN. Well, again, I don't like to use the words, "come clean," because to the extent they genuinely want to lend, that is fine. But what they are insisting, particularly where there are IMF programs and China is a lender, is that the IMF as part of its program has full transparency into the sustainability of China payments. And we will not be approving IMF programs without having that going forward.

Mr. GONZALEZ OF TEXAS. So is Treasury engaging these countries and kind of educating them on the risks of taking these Chinese loans?

Secretary MNUCHIN. Absolutely. And as I said, the current president of the World Bank, who has worked for us, is taking this on as a major issue for the World Bank under his leadership.

Mr. GONZALEZ OF TEXAS. Thank you.

I yield back.

Chairwoman WATERS. I ask unanimous consent to yield to myself for 5 minutes.

I would like to ask a few questions.

Mr. MCHENRY. I reserve the right to object.

Five minutes for both the ranking member and the chairwoman?

Chairwoman WATERS. That is absolutely correct.

Mr. MCHENRY. All right.

Chairwoman WATERS. What I intended to do after my time was to yield to you also.

Mr. MCHENRY. Thank you.

Chairwoman WATERS. Mr. Secretary, the law does not allow the Secretary to exercise discretion in disclosing the information provided the statutory conditions are met. Is that correct? Is that your understanding?

Secretary MNUCHIN. I believe, subject to the Constitution of the United States, that is correct.

Chairwoman WATERS. Okay. There was some information released last evening, I think in The Washington Post. And the memo states the Secretary's obligation to disclose returns and return information would not be affected by the failure of a tax-writing committee to state a reason for the request. And the only basis for the agency's refusal to comply with the committee's subpoena would be the invocation of the doctrine of executive privilege. Is that correct?

Secretary MNUCHIN. Let me just comment, I have no idea. I just saw that memo this morning. I have never seen it before. I don't know who wrote that memo. We will try to get to the bottom of it.

As I have commented before, we will read the memo. And if it has any new information—but I can't comment on the memo. I just saw it today. I don't even know if it is genuine or if someone made it up.

Chairwoman WATERS. Since you did not see it, let me ask a few other questions.

Did you discuss the memo with the President of the United States?

Secretary MNUCHIN. I have had no discussions with the President or anybody in the White House about releasing the President's tax returns.

Chairwoman WATERS. Did you have a discussion with anybody outside of the White House about this?

Secretary MNUCHIN. The Department of Justice, who is our lawyer in potential litigation and whom we rely upon for interpretations of constitutional law.

Chairwoman WATERS. I guess I want to make sure that you never discussed this memorandum with anybody inside or outside of the White House, is that correct?

Secretary MNUCHIN. I have not heard of or seen that memo, okay?

Chairwoman WATERS. My question is about discussion, did you discuss the memorandum with anybody inside the White House, or outside of the White House? I am referring to legal counsel. I am referring to lawyers. I am referring to advisers.

Secretary MNUCHIN. Let me be clear. The only person I have discussed that memo with is my General Counsel on the car ride over here, who is sitting behind me. I have not discussed that memo.

Oh, and, actually, I did ask the Commissioner whether he had seen that memo, and he had not.

Chairwoman WATERS. My question is prior to—

Secretary MNUCHIN. No. Let me be clear—

Chairwoman WATERS. —the first time that you say you saw it—

Secretary MNUCHIN. No, I have not discussed it.

Chairwoman WATERS. —was this morning. Is that correct?

Secretary MNUCHIN. We received an inquiry from The Washington Post, I believe 2 days ago, about a supposed memo. And the first time I saw it was in the car ride over here.

Chairwoman WATERS. Okay. The Treasury says it is following a legal analysis from the Justice Department. But that analysis has not been released. Do you have that analysis?

Secretary MNUCHIN. We have a conclusion. And as soon as the Justice Department, which we have asked them to work on expeditiously, has the full memo, it will be released publicly to you and to others. That is the—

Chairwoman WATERS. I would like to, as quickly as possible, get a copy of the analysis as soon as it is released.

Secretary MNUCHIN. I will assure that that is the case. We are working with DOJ, and I want to get it released quickly.

Chairwoman WATERS. Thank you.

I just wanted to take this moment to allow you to modify, to change, to expound, to do whatever was necessary to make sure that you were comfortable with your statement about never having seen it prior to the time that you indicated, never having discussed it with anyone in the White House, outside of the White House, legal counsel, advisers, et cetera. I just want to make sure.

With that, I yield to the ranking member.

Mr. MCHENRY. I thank the chairwoman.

As we know, under congressional authority, it is the Chair of the Ways and Means Committee, and the jurisdiction of the Ways and Means Committee over that division of Treasury that we call the IRS. And I think it would be appropriate to submit for the record The Washington Post story in question here. I don't know if that has been previously done, but it is the Jeff Stein and Josh Dawsey story from The Washington Post that posted last night at 6:46 p.m., entitled, "Confidential draft IRS memo says tax returns must be given to Congress unless President invokes executive privilege."

And I ask unanimous consent—

Chairwoman WATERS. Without objection, it is so ordered.

Mr. MCHENRY. Thank you.

To that end, in my reading of the story, this was a draft memo. It was stamped, "draft." It has no one that it is written to nor an author.

And so I just want to ask you, you stated you had not seen the memo until today. Do you mean you had not seen—you had not heard of this or seen the memo until you read the news story? Is that what you—

Secretary MNUCHIN. Yes. I mean, to the best of my recollection, okay, I don't ever recall seeing this memo. The first I ever heard of this was when we got a Washington Post inquiry.

Now, let me just also comment, what I have been briefed on very quickly on this is that this issue is different than the legal analysis that we have done. Now, of course, we will look at it and take it into account and make sure. But let me assure you, there is no smoking gun here. We did a very thorough legal analysis with the Department of Justice that, again, if this goes to the courts, the courts will decide and determine.

I, for one, think this is an unprecedented issue of turning over any individual's tax return, whether it is a Republican or a Democrat. And I would hope—we all hope that we get to the right conclusion on what the right law is here.

Mr. MCHENRY. So, in this regard, just to make sure the record is clear, have you seen the memo outlined in The Washington Post story?

Secretary MNUCHIN. Someone handed it to me on the way up here where they took it off of The Washington Post. So not that we received it independently.

Again, to the best of my knowledge and the people we have inquired, we have not received—nobody in the senior leadership had seen this before. So it could be somebody in Treasury somewhere or another.

Again, from what I have been told, I don't believe this is really that relevant to the legal analysis that we have done, but this is the first we are hearing of it.

Mr. MCHENRY. Well, thank you. And thank you for correcting the record.

The final question I had—and I ask unanimous consent to submit for the record my letter to the Director of FinCEN, dated May 6th, asking for additional briefing and data to support the legislation commonly called beneficial ownership here on Capitol Hill. I submit this for the record because I have not received a response back from FinCEN from our letter dated May 6th. I ask unanimous consent.

Chairwoman WATERS. Without objection, it is so ordered.

Mr. MCHENRY. And I this raise this to you, Mr. Secretary. The Director of FinCEN has yet to provide any data to justify the position to have a massive new collection of the ownership data of small businesses across America. I raise it to you because I know you can and will be responsive. I raise it to you because one of your reports has not been responsive. But the briefing I received from Director Blanco and his team was, quite frankly, insulting. It was anecdotal stories. No data in order to justify a substantial change in public policy. It would be infuriating under a Democrat Administration for me to receive a briefing like that. It is even more infuriating when it is a Republican Administration not giving Republicans on the Hill any sort of decency of data, nor do I actually think, when it comes to security matters, that partisan question should come into play. But it has been one of the more infuriating issues I have had to deal with.

Secretary MNUCHIN. You have my personal assurance we will be responsive to you on a timely basis and make sure you have the data so you—whatever your opinions are, are justified by data.

Mr. MCHENRY. Thank you.

Secretary MNUCHIN. I share your data view.

Mr. MCHENRY. Thank you. I appreciate that.

And, with that, I yield back.

Chairwoman WATERS. I would also like to ask unanimous consent to enter into the record letters from ONE Campaign, the Bank Information Center, the International Trade Union Federation, and several senior fellows from the Center for Global Development that echo concerns I expressed at last month's hearing. The letter raises questions about the transfer of concessional and grant resources from the World Bank Group's International Development Association, et cetera, et cetera.

I would like to thank Secretary Mnuchin for returning to the committee and for his time today.

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

And, with that, this hearing is adjourned. Thank you.

Secretary MNUCHIN. Thank you very much.

[Whereupon, at 10:50 a.m., the hearing was adjourned.]

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

April 9 and May 22, 2019

## Embargoed until Delivery

**Statement of Secretary Steven T. Mnuchin  
Department of the Treasury  
Before the Financial Services Committee  
U.S. House of Representatives  
April 9, 2019**

Chairwoman Waters, Ranking Member McHenry, and members of the Committee, it is good to be with you today to discuss the state of the international financial system, the National Advisory Council on International Monetary and Financial Policies (NAC) report to Congress, and the key priorities of the Treasury Department.

I am proud to report that President Trump's program of tax cuts, regulatory relief, and improved trade deals is resulting in the strongest economic growth for the American economy since 2005 and the best job market in generations. From Q4 of 2017 to Q4 of 2018, real GDP increased by 3 percent. Earnings also rose by over 3 percent for the first time in a decade. Unemployment is historically low, and more Americans are participating in the workforce with renewed optimism for the future.

The World Economic Forum's most recent competitiveness report named the United States the most competitive economy in the world for the first time in 10 years. Thanks in part to the Tax Cuts and Jobs Act (TCJA), companies are investing hundreds of billions of dollars in new and expanded U.S. business operations, resulting in more career opportunities for hardworking Americans. Families are also saving thousands on their yearly tax bills because the TCJA cut rates across the board, doubled the standard deduction, and enhanced the child tax credit.

I would note that Opportunity Zones are a key component of the TCJA, and they will help more Americans benefit from our strong economy. Opportunity Zones offer capital gains tax relief for investments in businesses in distressed communities. We are seeing a great deal of enthusiasm for this policy all across the country because it will lead to revitalization and restore the promise of prosperity to more workers and families.

The Administration is making trade with our international partners a top priority. I urge all members of Congress to support the passage of the US-Mexico-Canada Agreement (USMCA). It will create the highest standards ever negotiated to protect the intellectual property rights of entrepreneurs, provide strong support for small and mid-sized businesses, encourage manufacturing, and open markets for American agricultural products. We are also making progress negotiating with China to rebalance our economic relationship, end unfair trade practices, open their economy to American companies, and protect our critical technology.

We remain focused on several economic issues relating to national security. We are implementing the Foreign Investment Risk Review Modernization Act (FIRRMA). This



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legislation, which passed with overwhelming bipartisan support, modernizes the Committee on Foreign Investment in the United States (CFIUS) review process and enhances CFIUS's ability to analyze transactions for national security risks, while preserving our commitment to an open investment environment.

Treasury is combating the abuse of our financial system by rogue regimes, terrorist organizations, cybercriminals, and other illicit actors. The United States government and our international partners are putting unprecedented pressure on the illegitimate Maduro regime in Venezuela. We will continue to target this regime and support interim President Juan Guaido as he seeks to restore security and prosperity in his country and the region.

Treasury is also using its authorities to combat human rights abuses and corruption. We are pleased that many members of this committee have supported our sanctions and other actions, and I assure you that the Trump Administration will continue aggressively targeting malign actors all around the world.

Turning to policy developments impacting international financial institutions, we are advancing reforms to more efficiently alleviate poverty and foster stability and growth in emerging markets. We are working constructively with the G7, G20, World Bank, International Monetary Fund (IMF), and other partners to foster debt transparency that will reduce the risk of crises in developing countries.

As you are aware, the IMF aims to conclude its 15<sup>th</sup> General Review of Quotas this year. We believe that overall resources are currently adequate for it to accomplish its goals. We are beginning discussions with other shareholders on this issue.

Finally, of particular note to this committee, we are requesting authorization for funding for the World Bank's capital increase. In connection with this increase, we successfully negotiated a comprehensive reform package, which includes sustainable lending measures to limit the need for future capital increases and focus resources on poorer countries. We are also requesting authorization for the planned share purchase in the North American Development Bank with the goal of working more closely with Mexico to improve economic conditions in our hemisphere.

I look forward to your questions and discussing ways to create more jobs and raise wages for hardworking families. Thank you very much.

(Slip Opinion)

**Congressional Committee’s Request for the  
President’s Tax Returns Under 26 U.S.C. § 6103(f)**

The provisions in 26 U.S.C. § 6103 protecting confidentiality of tax returns prohibited the Department of the Treasury from complying with a request by the Chairman of the House Ways and Means Committee for the President’s tax returns. The text of section 6103(f), the statutory exception under which the request was made, does not require the Committee to state any purpose for its request. But Congress could not constitutionally confer upon the Committee the right to compel the Executive Branch to disclose confidential information without a legitimate legislative purpose. Under the facts and circumstances, the Secretary of the Treasury reasonably and correctly concluded that the Committee’s asserted interest in reviewing the Internal Revenue Service’s audits of presidential returns was pretextual and that its true aim was to make the President’s tax returns public, which is not a legitimate legislative purpose.

Because section 6103(a) prohibited the disclosure of the tax returns sought in the Chairman’s request, as well as in the corresponding subpoenas, the Department of the Treasury’s refusal to provide the information did not violate either 26 U.S.C. § 7214(a)(3) or 2 U.S.C. § 192.

June 13, 2019

MEMORANDUM OPINION FOR THE GENERAL COUNSEL  
DEPARTMENT OF THE TREASURY

The Internal Revenue Code requires that the Department of the Treasury keep tax returns and related information confidential, subject to certain exceptions, and makes the unauthorized disclosure of such information a federal crime. *See* 26 U.S.C. §§ 6103(a), 7213(a). You have asked for our advice about one exception, which provides that the Secretary of the Treasury “shall furnish” tax-return information “[u]pon written request from the chairman of the Committee on Ways and Means of the House of Representatives.” *Id.* § 6103(f)(1).

On April 3, 2019, the Chairman of the House Committee on Ways and Means, Representative Richard Neal, requested the last six years of President Trump’s individual tax returns, as well as those of eight associated business entities. *See* Letter for Charles P. Rettig, Commissioner, Internal Revenue Service, from Richard E. Neal, Chairman, Committee on Ways and Means, U.S. House of Representatives at 1–2 (Apr. 3, 2019) (“April 3 Neal Letter”). He also requested the audit histories and work papers associated with each return. *Id.* The Chairman’s request, however, did not make any mention of his long-standing campaign to acquire and publish the President’s confidential tax returns.

During the prior Congress, Chairman Neal, who was then the Committee's Ranking Member, repeatedly urged the Committee to invoke section 6103(f) to make the President's tax returns "available to the public," declaring that "Committee Democrats remain steadfast in [their] pursuit to have [President Trump's] individual tax returns disclosed to the public." H.R. Rep. No. 115-309, at 8 (2017) (dissenting views); H.R. Rep. No. 115-73, at 8 (2017) (dissenting views). Before the midterm elections, Chairman Neal (as well as other members of his party) promised that, if they won a majority in the House, then the Chairman would wield his authority to demand the President's tax returns.<sup>1</sup>

After becoming Chairman, he followed up on this promise by requesting that the Internal Revenue Service ("IRS") disclose the President's tax returns. In lieu of his prior focus on making the returns public, he asserted that the Committee required six years of President Trump's tax returns because it was "considering legislative proposals and conducting oversight related to our Federal tax laws, including, but not limited to, the extent to which the IRS audits and enforces the Federal tax laws against a President." April 3 Neal Letter at 1. To that end, Chairman Neal claimed that "[i]t is necessary for the Committee to determine the scope of any such examination and whether it includes a review of underlying business activities required to be reported on the individual income tax return." *Id.* The Chairman did not explain why, if the Committee were sincerely interested in understanding how the IRS audits presidential tax returns, he needed to review President Trump's tax returns for many years before his presidency. Nor did the Chairman request any information concerning the IRS's actual policies or practices governing presidential audits or the audit histories for any President other than President Trump.

In view of these marked discrepancies in the public record, Treasury, quite reasonably, concluded that Chairman Neal had not articulated the real reason for his request. The Chairman's request that Treasury turn over the President's tax returns, for the apparent purpose of making them public, amounted to an unprecedented use of the Committee's authority

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<sup>1</sup> See Richard Rubin, *Trump's Tax Returns in the Spotlight if Democrats Capture the House*, Wall St. J., Oct. 3, 2018, <https://www.wsj.com/articles/trumps-tax-returns-in-the-spotlight-if-democrats-capture-the-house-1538575880>; see also, e.g., John Wildermuth, *Pelosi: Trump's tax returns are fair game if Democrats win House*, S.F. Chron., Oct. 11, 2018, <https://www.sfchronicle.com/politics/article/Pelosi-Trump-s-tax-returns-are-fair-game-if-13297954.php> (quoting Minority Leader Pelosi: "Demanding the president's tax returns 'is one of the first things we'd do—that's the easiest thing in the world.'").

*Congressional Committee's Request for the President's Tax Returns*

and raised a serious risk of abuse. As you explained, Treasury was committed to complying with the law, but under the circumstances, it questioned whether the Chairman's request was lawful. Accordingly, you requested this Office's advice about whether Treasury should fulfill the request. *See* Letter for Steven A. Engel, Assistant Attorney General, Office of Legal Counsel, from Brent J. McIntosh, General Counsel, Department of the Treasury at 1 (May 2, 2019).

Given your desire to accommodate the Chairman's deadlines, we agreed to provide our conclusions, with a more detailed opinion to follow. We advised that, although the text of section 6103(f) does not require the Committee to state any purpose for its request, Congress could not constitutionally confer upon itself the right to compel a disclosure by the Executive Branch of confidential information that does not serve a legitimate legislative purpose. *See* Letter for Brent J. McIntosh, General Counsel, Department of the Treasury, from Steven A. Engel, Assistant Attorney General, Office of Legal Counsel at 1 (May 6, 2019) ("Engel Letter"). While the Executive Branch should accord due deference and respect to congressional requests, the Executive need not treat the Committee's assertion of the legitimacy of its purpose as unquestionable. *Id.* The President stands at the head of a co-equal branch of government, and he is separately accountable to the people for the faithful performance of his responsibilities. Treasury thus had the responsibility to confirm for itself that the Chairman's request serves a legitimate legislative end. *Id.*

Under the circumstances, we agreed that it was reasonable to conclude that the Committee's asserted interest in the IRS's audit of presidential returns was pretextual, and that the true aim was to make the President's tax returns public. *Id.* We found strong support for that conclusion in the "manner by which the Committee has conducted its stated investigation, the lack of fit between the requested documents and the proffered reasons, and the many statements by the Chairman and other Members of Congress explaining their purpose for pursuing the tax returns." *Id.* The Supreme Court has made clear that "there is no congressional power to expose for the sake of exposure," *Watkins v. United States*, 354 U.S. 178, 200 (1957), and transmitting information "to inform the public . . . is not a part of the legislative function," *Hutchinson v. Proxmire*, 443 U.S. 111, 133 (1979). In the absence of a legitimate legislative purpose, the disclosure of the President's tax returns to the Chairman was barred by section 6103(a) and the Constitution. Engel Letter at 1. This opinion explains the basis for those conclusions.

**I.****A.**

For several decades before 1976, federal tax returns were generally considered “public” records, but they were open to inspection only under regulations or order of the President; while often available to governmental entities, they were nearly always unavailable to the public. *See* 1 Office of Tax Policy, Department of the Treasury, *Report to the Congress on Scope and Use of Taxpayer Confidentiality and Disclosure Provisions* 17–20 (Oct. 2000). By the mid-1970s, Congress had become “increasingly concerned about the disclosure and use of information gathered from and about citizens by [federal] agencies.” *Id.* at 20. Government officials had misused tax returns for political purposes, and the absence of genuine confidentiality was thought to impair voluntary compliance with the tax system. *See id.* at 21; *see also* S. Rep. No. 94-938, at 317–18 (1976) (describing questions about “whether the present extent of actual and potential disclosure” presented an “abuse of privacy” that “would seriously impair the effectiveness of our country’s very successful voluntary assessment system which is the mainstay of the Federal tax system”); Staff of the Joint Committee on Taxation, *General Explanation of the Tax Reform Act of 1976*, JCS-33-76, at 314 (Dec. 29, 1976) (“Apparently, tax information had been obtained by the White House pertaining to a number of well known individuals for use for non-tax purposes.”); 122 Cong. Rec. 24,013 (1976) (statement of Sen. Weicker) (observing that tax returns had become a “generalized governmental asset” and the IRS was acting like a “lending library” to the rest of the government).

In the Tax Reform Act of 1976, Congress established that “[r]eturns and return information shall be confidential, . . . except as authorized by this title.” 26 U.S.C. § 6103(a). Returns and return information (collectively, “tax information”) are defined broadly.<sup>2</sup> Under this confidentiality

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<sup>2</sup> Returns are “any tax or information return, declaration of estimated tax, or claim for refund required by, or provided for or permitted under, the provisions of this title which is filed with the Secretary . . . , and any amendment or supplement thereto.” 26 U.S.C. § 6103(b)(1). Return information includes “a taxpayer’s identity, the nature, source, or amount of his income, payments, receipts, deductions, exemptions, credits, assets, liabilities, net worth, tax liability, tax withheld, deficiencies, overassessments, or tax payments, whether the taxpayer’s return was, is being, or will be examined or subject to other

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rule, government officials with legitimate access to tax information may not disseminate it without additional authorization. A willful unauthorized disclosure is a felony, *see id.* § 7213(a)(1)–(2), and any person who willfully inspects tax information without authorization commits a misdemeanor, *see id.* § 7213A. It is also a felony to willfully solicit tax information, or to willfully “print or publish” it “in any manner not provided by law.” *Id.* § 7213(a)(3)–(4). In addition, a taxpayer whose information has been mishandled may seek civil damages against the United States or the private persons responsible in certain circumstances. *Id.* § 7431.

The Secretary and the IRS Commissioner are the “gatekeepers of federal tax information.” *Tax Analysts v. IRS*, 117 F.3d 607, 613 (D.C. Cir. 1997); *see* 26 U.S.C. § 7801(a)(1) (providing that the Commissioner performs his duties under the Secretary’s supervision); Treas. Order No. 150-10 (Apr. 22, 1982) (delegating general authority to administer the tax laws to the Commissioner). The Secretary may prescribe the manner, time, and place for inspection and disclosure, 26 U.S.C. § 6103(p)(1), and must maintain records of such requests, as well as of the returns inspected or disclosed, *id.* § 6103(p)(3). Congress has further imposed strict confidentiality safeguards on all entities that receive tax information. *Id.* § 6103(p)(4).

Congress has identified “thirteen tightly drawn categories of exceptions” to the confidentiality of return information. *EPIC v. IRS*, 910 F.3d 1232, 1237 (D.C. Cir. 2018); *see* 26 U.S.C. § 6103(c)–(o); *see also* *Congressional Access to Tax Returns Under 26 U.S.C. § 6103(f)*, 1 Op. O.L.C. 85, 90–91 (1977) (noting that section 6103 was “designed to tighten the rules for disclosure” and “to restrict even congressional access to tax information”). Some exceptions are phrased in mandatory terms. *See, e.g.*, 26 U.S.C. § 6103(f)(1), (j)(1) (“the Secretary shall furnish”). Others are permissive. *See, e.g., id.* § 6103(h)(5) (“the Secretary may disclose”).

In this matter, Chairman Neal invoked the exception for the congressional tax committees, which provides that, “[u]pon written request” of the Chairman of the House Committee on Ways and Means, the Chairman of the Senate Finance Committee, or the Chairman of the Joint Committee on Taxation, “the Secretary shall furnish such committee with any return or return information specified in such request.” *Id.* § 6103(f)(1). If the tax information would identify a particular taxpayer, then it shall be

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investigation or processing, or any other data, received by, recorded by, prepared by, furnished to, or collected by the Secretary with respect to a return.” *Id.* § 6103(b)(2)(A).

disclosed only “in closed executive session” (i.e., out of public view), absent the taxpayer’s consent. *Id.* But the three tax committees may submit the tax information to the full Senate or the full House in public session, resulting in public disclosure. *Id.* § 6103(f)(4)(A). This authority differs from that available to other congressional committees, which when authorized by a House or Senate resolution may inspect tax information in closed executive session, *id.* § 6103(f)(3), and may transmit such information to the full House or Senate only in closed executive session, *id.* § 6103(f)(4)(B), preventing public disclosure.

The tax committees often rely upon section 6103(f)(1) to inspect tax information, but such requests typically seek “statistical data to inform the drafting of tax legislation.” Letter for Richard E. Neal, Chairman, Committee on Ways and Means, U.S. House of Representatives, from Steven T. Mnuchin, Secretary of the Treasury at 1 (Apr. 23, 2019) (“April 23 Mnuchin Letter”); *see, e.g.*, Staff of the Joint Committee on Taxation, *Disclosure Report for Public Inspection Pursuant to Internal Revenue Code Section 6103(p)(3)(C) for Calendar Year 2018*, JCX-21-19, at 3 (May 14, 2019) (recording “bulk master file data” disclosures to congressional committees). We have identified only one instance in the four decades since the Tax Reform Act of 1976 when a tax committee publicly disclosed information about specific taxpayers that it had obtained under section 6103(f). In 2014, the Committee investigated allegations of IRS misconduct concerning discrimination against certain conservative organizations in reviewing their tax-exempt status. The Committee obtained tax information about these organizations in connection with its investigation, and some of that information was publicly released when the Committee included it in a criminal referral.<sup>3</sup> There were, however, no indications that the Committee had requested the organizations’ tax information for the purpose of publicly disclosing it.

Congressional committees published personally identifiable tax information on three other notable occasions before the 1976 reforms, but in those instances, the Executive Branch released the information voluntari-

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<sup>3</sup> See George K. Yin, *Preventing Congressional Violations of Taxpayer Privacy*, 69 Tax Law. 103, 108–14 (2015); *see also* Markup of Referral to the Hon. Eric H. Holder, Jr., Att’y Gen., of Former Internal Revenue Service Exempt Organizations Division Director Lois G. Lerner for Possible Criminal Prosecution for Violations of One or More Criminal Statutes Based on Evidence the Committee Has Uncovered in the Course of the Investigation of IRS Abuses, H. Comm. on Ways & Means, 113th Cong., at 81 (Apr. 9, 2014) (statement of Rep. Kind) (expressing concern about creating a “very troubling precedent” that the Committee could “start releasing this stuff publicly”).

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ly. First, in 1924, the Joint Committee on Internal Revenue Taxation sought and obtained tax information about alleged participants in the Teapot Dome scandal. *See* S. Res. 185, 68th Cong., 65 Cong. Rec. 3702 (1924). That information was later published in the *Congressional Record*. *See* 69 Cong. Rec. 9842–43 (1928). The disclosure was made pursuant to a Treasury regulation, not section 6103(f)(4). *See Inspection of Returns*, T.D. 3566, 26 Treas. Dec. Int. Rev. 54, 58 ¶ 13 (1924) (“Inspection of any return shall be afforded to any committee . . . by the Secretary of the Treasury upon application duly made by the chairman of such committee, pursuant to a resolution of Congress or either House[.]”).<sup>4</sup> Second, in 1970, information about Students for a Democratic Society that had been obtained under a Treasury regulation was released in a report by the Committee on Internal Security.<sup>5</sup> Third, in 1973, President Nixon chose to release “his tax returns for every year from 1968 to 1972” to the Joint Committee on Internal Revenue Taxation. Joseph J. Thorn-dike, *JCT Investigation of Nixon's Tax Returns*, Tax Notes, June 13, 2016, at 1527, 1531. The Joint Committee later made public a staff report containing tax information that Nixon had voluntarily disclosed. *Id.* at 1533. Chairman Neal therefore has accurately stated that his request for President Trump’s tax information is without any precedent. *See infra* note 17 and accompanying text.

**B.**

Chairman Neal’s April 3 letter represents the culmination of a sustained effort over more than two years to seek the public release of President Trump’s tax returns. During the 2016 presidential campaign, then-candidate Trump chose not to publicly release his tax returns. The President’s decision became a campaign issue, with his Democratic opponent charging that “[h]e refuses to do what every other presidential candidate in decades has done.”<sup>6</sup>

After the 2016 election, the minority Members of the House continued to press for the President’s tax returns. On January 12, 2017, a group of 21 Ranking Members of House committees (including Ranking Member

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<sup>4</sup> *See also* Yin, *Preventing Congressional Violations of Taxpayer Privacy*, 69 Tax Law. at 121 & n.89.

<sup>5</sup> *See id.* at 136 & n.166.

<sup>6</sup> CNN, *The Situation Room* (television broadcast Aug. 12, 2016), <http://www.cnn.com/TRANSCRIPTS/1608/12/sitroom.01.html>.



Neal) sent a letter to Speaker Paul Ryan requesting help in obtaining the returns.<sup>7</sup> Three weeks later, Representative Bill Pascrell, Jr., requested that the Ways and Means Committee obtain the President’s tax returns under section 6103(f)(1) and then vote in closed session “to submit [them] to the House of Representatives—thereby, if successful, making them available to the public.”<sup>8</sup> The refrain was picked up by, among others, Minority Leader Nancy Pelosi, who called for the Committee “to demand Trump’s tax returns from the Secretary of the Treasury” and to “hold a committee vote to make those tax returns public.”<sup>9</sup> She emphasized the unique authority of the Ways and Means Committee, explaining that “[t]hey can ask for the president’s tax returns, and then by a vote in their committee, they can decide where they should be released to the public[.]”<sup>10</sup>

On March 9, 2017, Representative Pascrell introduced a resolution of inquiry that purported to “direct[.]” the Secretary under section 6103(f) to provide the House with ten years of President Trump’s tax returns, from 2006 through 2015. *See* H.R. Res. 186, 115th Cong. (as introduced, Mar. 9, 2017). Ranking Member Neal was an original co-sponsor of the resolution, which soon acquired 92 co-sponsors, including every Democrat then on the Ways and Means Committee and 19 of the 25 current majority members.<sup>11</sup> On party lines, the Committee reported the resolution

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<sup>7</sup> Letter for Paul Ryan, Speaker, U.S. House of Representatives, from Elijah E. Cummings, Ranking Member, Committee on Oversight and Government Reform, U.S. House of Representatives, et al. at 6 (Jan. 12, 2017), [https://oversight.house.gov/sites/democrats.oversight.house.gov/files/documents/2017-01-12.Ranking%20Members%20to%20Speaker%20Ryan%20Re.Trump\\_.pdf](https://oversight.house.gov/sites/democrats.oversight.house.gov/files/documents/2017-01-12.Ranking%20Members%20to%20Speaker%20Ryan%20Re.Trump_.pdf).

<sup>8</sup> Letter for Kevin Brady, Chairman, Committee on Ways and Means, U.S. House of Representatives, from Bill Pascrell, Jr., Member, Committee on Ways and Means, U.S. House of Representatives at 2 (Feb. 1, 2017), <https://pascrell.house.gov/news/documentsingle.aspx?DocumentID=2195>.

<sup>9</sup> *Transcript of House Democratic Leadership Press Conference at 2017 Issues Conference* (Feb. 8, 2017), <https://www.speaker.gov/newsroom/282017/>.

<sup>10</sup> Press Conference, Minority Leader Nancy Pelosi, Reacting to Resignation of National Security Advisor Michael Flynn (Feb. 14, 2017), <https://www.speaker.gov/newsroom/2142017/>.

<sup>11</sup> *Compare* H.R. Res. 186, 115th Cong. at 1–2 (as reported, Mar. 30, 2017) (listing co-sponsors), *with* H.R. Rep. No. 115-73, at 4 (listing Committee Members in 2017), *and* Chairman Richard Neal, Ways & Means Committee, *Committee Members*, <https://waysandmeans.house.gov/about/committee-members> (last visited June 13, 2019) (listing current Committee Members).

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unfavorably on March 30, 2017, characterizing it as an “abuse of authority” and “an invasion of privacy.” H.R. Rep. No. 115-73, at 3. The Committee explained that section 6103(f) “does not authorize the House of Representatives to receive confidential tax returns and return information from the Secretary of the Treasury, as H. Res. 186 directs.” *Id.* at 2–3. Rather, requests under section 6103(f) must be made pursuant to “our legislative responsibility to oversee the tax code.” *Id.* at 3. “[T]he purpose of this resolution,” however, “is to single out one individual,” and, if the resolution were followed, it “would be the first time the Committee exercised its authority to wade into the confidential tax information of an individual with no tie to any investigation within our jurisdiction.” *Id.*

Ranking Member Neal and Representative Pascrell filed dissenting views to express “strong[] oppos[ition]” to the unfavorable report. *Id.* at 7–8. They complained that the President had “rebuked over 40 years of tradition and refused to release his individual tax returns to the public.” *Id.* They reiterated that, “[s]tarting in February [2017], Committee Democrats began pressing Committee Republicans to use the authority under Section 6103 to obtain President Trump’s tax returns and make them available to the public.” *Id.* at 8. In their view, the Committee should invoke section 6103(f) to acquire the returns, then use section 6103(f)(4)(A) to submit them “to the House,” when, “[p]rocedurally, . . . the tax return and return information would become available to the public.” *Id.* They expressed their “sincerest hope that President Trump will release his tax returns to the American public as virtually all presidents have done since Richard Nixon.” *Id.* And they proclaimed that “Committee Democrats remain steadfast in our pursuit to have [the President’s] individual tax returns disclosed to the public.” *Id.*

Throughout the rest of the 115th Congress, House Democrats repeatedly attempted to force the public release of the President’s tax returns. On April 5, 2017, Minority Leader Pelosi held another press conference about the President’s failure to release his tax returns, at which Ranking Member Neal acknowledged: “This is not about the law, this is about custom and practice. It’s a settled tradition [that] candidates reach the level of expectation that they’re supposed to release their tax forms.”<sup>12</sup> Over the next several months, House Members offered at least a half-dozen privi-

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<sup>12</sup> *Pelosi Remarks at Press Conference on Demanding a Vote Requiring President Trump to Release Tax Returns* (Apr. 5, 2017) (remarks of Ranking Member Neal), <https://www.speaker.gov/newsroom/4517/>.

leged resolutions to try to force the release of the tax returns.<sup>13</sup> In July 2017, Representative Pascrell introduced another resolution of inquiry, *see* H.R. Res. 479, 115th Cong. (July 27, 2017), which the Committee reported unfavorably in September 2017, *see* H.R. Rep. No. 115-309, at 4. As with the earlier resolution, the Committee concluded that “[d]irecting the Secretary of the Treasury to now break current law by violating the confidentiality of tax return information is profoundly misguided.” *Id.* at 3. Ranking Member Neal and Representative Pascrell again filed dissenting views on behalf of “Committee Democrats” who “remain[ed] steadfast in [their] pursuit to have [the President’s] individual tax returns disclosed to the public.” *Id.* at 7, 8. During 2018, House Democrats continued to seek the release of the President’s tax returns in public statements, letters, and amendments to pending bills.<sup>14</sup>

Shortly before the mid-term elections, Minority Leader Pelosi and Ranking Member Neal promised that they would continue their pursuit of the President’s tax returns if their party won a majority in the House. In October 2018, Leader Pelosi stated that “[d]emanding the president’s tax returns ‘is one of the first things we’d do—that’s the easiest thing in the world.’”<sup>15</sup> And Representative Neal said he intended to “get the documents” if he became the Chairman of the Committee.<sup>16</sup> He did, however, express some hesitation about precisely how he would proceed, conceding that “[t]his has never happened before, so you want to be very meticulous.”<sup>17</sup> After the Democrats won the majority in the mid-term elections,

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<sup>13</sup> *See* April 23 Mnuchin Letter app. B, at 8–33; Rep. Bill Pascrell, *President Trump’s Tax Returns*, <https://pascrell.house.gov/issues/president-trumps-tax-returns/> (last visited June 13, 2019).

<sup>14</sup> *See* April 23 Mnuchin Letter app. B, at 35–37; Rep. Bill Pascrell, *President Trump’s Tax Returns*, <https://pascrell.house.gov/issues/president-trumps-tax-returns/> (last visited June 13, 2019).

<sup>15</sup> John Wildermuth, *Pelosi: Trump’s tax returns are fair game if Democrats win House*, S.F. Chron., Oct. 11, 2018, <https://www.sfchronicle.com/politics/article/Pelosi-Trump-s-tax-returns-are-fair-game-if-13297954.php>.

<sup>16</sup> *See* Richard Rubin, *Trump’s Tax Returns in the Spotlight if Democrats Capture the House*, Wall St. J., Oct. 3, 2018, <https://www.wsj.com/articles/trumps-tax-returns-in-the-spotlight-if-democrats-capture-the-house-1538575880>.

<sup>17</sup> *Id.*; *see also* Lauren Fox, *Leading Democrat on House Ways and Means would ask for Trump’s tax returns*, CNN, Oct. 12, 2018, <https://www.cnn.com/2018/10/12/politics/house-ways-mean-tax-returnsrichard-neal/index.html> (“‘It is not cut and dry,’ Neal said, noting that there was still plenty of discussion ahead for how and when to request the returns officially.”).

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incoming-Speaker Pelosi predicted that the Ways and Means Committee would pursue the tax returns, but she “cautioned that securing them is ‘a little more challenging than you might think.’”<sup>18</sup>

To sum up, throughout 2017 and 2018, Chairman Neal and other Members of Congress made clear their intent to acquire and release the President’s tax returns. They offered many different justifications for such an action, suggesting that releasing the returns would “honor tradition,” show “what the Russians have on Donald Trump,” reveal a potential “Chinese connection,” inform tax reform legislation, provide the “clearest picture of his financial health,” and expose any alleged emoluments received from foreign governments.<sup>19</sup> But oversight of “the extent to which the IRS audits and enforces the Federal tax laws against a President” had never been the focus of their demands. April 3 Neal Letter at 1.

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<sup>18</sup> John Wagner, *Pelosi says she expects a House committee will ‘take the first steps’ toward obtaining Trump’s tax returns*, Wash. Post, Dec. 13, 2018, [https://www.washingtonpost.com/powerpost/pelosi-says-she-expects-a-house-committee-will-take-the-first-steps-toward-obtaining-trumps-tax-returns/2018/12/13/fbc02660-feec-11e8-862a-b6a6f3ce8199\\_story.html](https://www.washingtonpost.com/powerpost/pelosi-says-she-expects-a-house-committee-will-take-the-first-steps-toward-obtaining-trumps-tax-returns/2018/12/13/fbc02660-feec-11e8-862a-b6a6f3ce8199_story.html).

<sup>19</sup> See April 23 Mnuchin Letter app. A, at 3–4; *see also, e.g., id.* app. B, at 2 (quoting Ranking Member Neal: the tax returns would “help protect against violations of the Emoluments Clause of the Constitution and conflicts of interest, including with foreign adversaries such as Russia”); *id.* app. B, at 7 (quoting Rep. Pascrell: “Why won’t Republican members of Congress use their authority in the law to provide oversight and make sure the president and his family are not hiding financial ties that could cause conflicts in the decision-making?”); *id.* app. B, at 8, 11 (quoting resolutions introduced by Reps. Pascrell and Eshoo: “disclosure of the President’s tax returns could help those investigating Russian influence in the 2016 election”); *id.* app. B, at 15 (quoting Ranking Member Neal and Rep. Pascrell: “Tax returns provide the clearest picture of a president’s financial health” and will allow the public “to gain a more complete understanding of how tax reform will benefit President Trump and his vast business empire.”); *id.* app. B, at 19 (quoting Leader Pelosi discussing the “Chinese connection” and explaining, “there’s concerns about recent actions by the Chinese government, in relation to the Trump Organization”); *id.* app. B, at 21 (quoting Leader Pelosi: “We think [the returns] will show us some connection that will be useful in the investigation of what do the Russians have on Donald Trump politically, personally, financially.”); *id.* app. B, at 22 (quoting Rep. Jeffries: “The release of the President’s tax returns will help the American people better understand the extent of Trump’s financial ties to Putin’s Russia.”); *id.* app. B, at 31 (quoting Leader Pelosi: “By blatantly refusing to reveal his tax returns, the President fails to fulfill his promise to the American people, honor tradition, and be transparent about his financial history.”).

## C.

After Representative Neal became Chairman, he confirmed that the Committee would pursue the public release of President Trump's tax returns, because "the public has reasonably come to expect that presidential candidates and aspirants release those documents," but he cautioned that "[w]e need to approach this gingerly and make sure the rhetoric that is used does not become a footnote to the court case."<sup>20</sup> On February 7, 2019, the Subcommittee on Oversight held a hearing to consider "whether a President, vice president, or any candidate for these office[s] should be required by law to make their tax return available to the public." *Legislative Proposals and Tax Law Related to Presidential and Vice-Presidential Tax Returns: Hearing Before the Subcomm. on Oversight of the H. Comm. on Ways & Means*, 116th Cong., Serial No. 116-3, at 8 (Feb. 7, 2019) (statement of Subcommittee Chairman Lewis). As one Member explained on television that day, the subcommittee hearing was intended to "lay the foundation for the public purpose to acquire access to these returns."<sup>21</sup>

On April 3, 2019, Chairman Neal announced that the Committee had "completed the necessary groundwork for a request of this magnitude" and that he felt "certain we are within our legitimate legislative, legal, and oversight rights."<sup>22</sup> Two days later, Chairman Neal explained that the Committee had "constructed" a "case" for the tax returns that he hoped "would stand up under the critical scrutiny of the federal courts."<sup>23</sup>

The Chairman explained this "case" in his April 3 letter formally requesting the returns. Invoking 26 U.S.C. § 6103(f), the Chairman requested that, within one week, the IRS produce the President's individual tax returns and those of eight associated business entities for the past six years (tax years 2013 through 2018). April 3 Neal Letter at 1–2. The letter

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<sup>20</sup> Mark Sullivan, *Powerful Ways and Means chairman Neal to pursue Trump's tax returns*, Telegram & Gazette, Jan. 23, 2019, <https://www.telegram.com/news/20190123/powerful-ways-and-means-chairman-neal-to-pursue-trumps-tax-returns>. Chairman Neal also stated: "We are now in the midst of putting together the case." *Id.*

<sup>21</sup> MSNBC, *All In with Chris Hayes* (transcript of television broadcast Feb. 7, 2019), <http://www.msnbc.com/transcripts/all-in/2019-02-07> (statement of Rep. Dan Kildee).

<sup>22</sup> Chairman Richard Neal, Ways & Means Committee, *Neal Statement on Requesting President Trump's Tax Returns* (Apr. 3, 2019), <https://waysandmeans.house.gov/media-center/press-releases/neal-statement-requesting-president-trump-s-tax-returns>.

<sup>23</sup> Sunlen Serfaty et al., CNN, *Republicans Warn Trump Tax Request 'Sets A Dangerous Standard' and Accuse Dems of Weaponizing IRS* (Apr. 5, 2019), <https://www.cnn.com/2019/04/04/politics/trump-tax-returns-request-republicans-congress/index.html>.

also requested information about the returns' audit histories and all associated "administrative files (workpapers, affidavits, etc.)." *Id.* According to the Chairman, "the Committee is considering legislative proposals and conducting oversight related to our Federal tax laws, including, but not limited to, the extent to which the IRS audits and enforces the Federal tax laws against a President." *Id.* at 1. The Chairman recognized that IRS policy subjects every President's individual income tax returns to a mandatory audit. *Id.*<sup>24</sup> He said the requested documents were "necessary" for the Committee "to determine the scope of any such examination and whether it includes a review of underlying business activities required to be reported on the individual income tax return." *Id.* The Chairman did not address what the Committee would do with the tax returns upon their receipt. *See id.* at 1–2.

After the Secretary informed Chairman Neal that he would consult with the Department of Justice about the novel request, the Chairman advised that the Executive could not "second guess the motivations of the Committee or its reasonable determinations regarding its need for the requested tax returns and return information." Letter for Charles P. Rettig, Commissioner, Internal Revenue Service, from Richard E. Neal, Chairman, Committee on Ways and Means, U.S. House of Representatives at 2 (Apr. 13, 2019) ("April 13 Neal Letter"). In his view, the Committee was entitled to a presumption of regularity and "concerns about what the Committee may do with the tax returns and return information are baseless." *Id.* He set a new deadline of April 23 to "provide the requested tax returns and return information." *Id.*

On April 23, the Secretary informed the Committee that Treasury was continuing its consultations with the Department of Justice and would decide the request by May 6. *See* April 23 Mnuchin Letter at 1. The Secretary noted that the Chairman's section 6103(f) request was "categorically different" from the "overwhelming majority of [congressional] requests for tax return information," which "seek statistical data to inform the drafting of tax legislation." *Id.* Here, by contrast, the Committee "seeks the returns of a single individual taxpayer for an asserted purpose that is at odds with what you and many others have repeatedly said is the request's intent: to publicly release the President's tax returns." *Id.* The Secretary detailed his concerns about the Chairman's interpretation of

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<sup>24</sup> Under IRS policy since 1977, "[i]ndividual income tax returns for the President and Vice President are subject to mandatory examinations [i.e., audits]." Internal Revenue Manual § 3.28.3.4.3, ¶ 1 (Jan. 1, 2019).

section 6103(f) and the apparently pretextual justification for the request. *Id.* at 4–5. In support, the Secretary attached 47 pages of appendices, which chronicled “a long-running, well-documented effort to expose the President’s tax returns for the sake of exposure.” *Id.* at 3; *see also id.* apps. A & B. As the Secretary summarized:

Because Congress may only conduct investigations to further a legitimate legislative purpose, Congressional investigations ordinarily begin with a legislative purpose, and that purpose defines the scope of the documents that are pertinent to the Committee’s investigation. But here, by the Committee’s own admission, the Committee’s investigation began in the opposite direction. The Committee started with the documents it planned to obtain and release (the President’s tax returns), and then it sought—in Chairman Neal’s words—to “construct[]” a “case” for seeking the documents that would appear to be in furtherance of a legitimate legislative purpose.

The Committee knew that exposure for the sake of exposure would not be a legitimate purpose, and so the Committee could no longer rely upon prior statements to that effect.

*Id.* app. A, at 4–5 (footnotes omitted). Despite those concerns, the Secretary explained that, “[t]o the extent the Committee wishes to understand, for genuine oversight purposes, how the IRS audits and enforces the Federal tax laws against a President,” Treasury stood ready to “provid[e] additional information on the mandatory audit process.” *Id.* at 5.

On May 6, Treasury formally denied the Committee’s request. *See* Letter for Richard E. Neal, Chairman, Committee on Ways and Means, U.S. House of Representatives, from Steven T. Mnuchin, Secretary of the Treasury at 1 (May 6, 2019) (“May 6 Mnuchin Letter”); Letter for Richard E. Neal, Chairman, Committee on Ways and Means, U.S. House of Representatives, from Charles P. Rettig, Commissioner of Internal Revenue (May 6, 2019). The Secretary had concluded that the Committee’s proffered reason was pretextual. In reliance on this Office’s advice, he further concluded that the Committee’s true purpose—the public disclosure of the President’s tax returns—fell outside Congress’s constitutional power of inquiry, and that section 6103(f) would not authorize disclosure. *Id.* The Secretary renewed his “offer to provide information concerning the Committee’s stated interest in how the IRS conducts mandatory examinations of Presidents.” *Id.*

Four days later, the Committee served subpoenas on the Secretary and the IRS Commissioner seeking the President’s tax returns. *See, e.g.,*

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Subpoena to the Honorable Steven T. Mnuchin, Secretary, Department of the Treasury, Schedule A (May 10, 2019). In an accompanying letter, Chairman Neal denied the charge of pretext and reiterated his claim that the Committee was conducting oversight related to “the extent to which the IRS audits and enforces the Federal tax laws against a President.” Letter for Charles P. Rettig, Commissioner, Internal Revenue Service, and Steven T. Mnuchin, Secretary of the Treasury, from Richard E. Neal, Chairman, Committee on Ways and Means, U.S. House of Representatives at 2 (May 10, 2019) (“May 10 Neal Letter”). Although the Chairman expressed concern about “the President’s ability to influence” the audit process, he rejected the Secretary’s offer of an accommodation that would supply information responsive to that concern, stating that information concerning the IRS’s audit practices “is not a substitute for the requested tax returns.” *Id.* at 3.

On May 17, the Secretary and the IRS Commissioner declined to produce the records in response to the subpoenas based on the earlier conclusion that the Committee lacked a legitimate legislative purpose. *See* Letter for Richard E. Neal, Chairman, Committee on Ways and Means, U.S. House of Representatives, from Steven T. Mnuchin, Secretary of the Treasury at 1 (May 17, 2019) (“May 17 Mnuchin Letter”); Letter for Richard E. Neal, Chairman, Committee on Ways and Means, U.S. House of Representatives, from Charles P. Rettig, Commissioner of Internal Revenue at 1 (May 17, 2019) (“May 17 Rettig Letter”). The Secretary had previously “offered to work with the Committee to accommodate its stated interest in understanding how the IRS audits and enforces the Federal tax laws against a President by providing the Committee with additional information on the mandatory audit process.” May 17 Mnuchin Letter at 1. But the Committee had declined those offers. The Secretary reiterated that this accommodation “would provide information that directly bears upon what the Committee has stated to be its legislative interest in this subject.” *Id.* In a separate letter, the IRS Commissioner provided some of that information in order to inform the Committee that its stated concerns about improper influence on the audit process were unfounded. May 17 Rettig Letter at 1–2.<sup>25</sup>

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<sup>25</sup> After repeatedly rejecting the Secretary’s offered accommodation, Chairman Neal reversed course on May 22 and invited Treasury to provide whatever additional information it chose. *See* E-mail for Office of Legislative Affairs, Department of the Treasury, et al., from Staff Director, Subcommittee on Oversight, Committee on Ways and Means (May 22, 2019) (“It is unclear from the [Department’s] letters exactly what type of



**II.**

The plain language of 26 U.S.C. § 6103(f)(1) does not require a tax committee to provide any purpose in support of its request for tax information.<sup>26</sup> Yet the Committee has repeatedly labored to justify its request for six years of the President's returns.<sup>27</sup> The Committee's perceived need to articulate such a justification reflects the fact that the Constitution limits the power that Congress may confer upon its agents. Because each House establishes congressional committees solely to carry out its legislative functions, the Committee may request confidential information from the Executive Branch only to further a legitimate legislative purpose.

While the Executive Branch should accord due deference and respect to a committee's request, the Committee's stated purpose in the April 3 letter blinks reality. It is pretextual. No one could reasonably believe that the Committee seeks six years of President Trump's tax returns because of a newly discovered interest in legislating on the presidential-audit

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additional information Treasury and the IRS intend to provide to [the] Committee. If there are documents or other written materials that Treasury and the IRS would like to provide, please feel free to send those documents to me. If the intent is to provide a briefing, Committee staff is available to meet this week in our offices."'). On June 10, senior IRS officials provided the Committee's staff with a three-hour briefing on the presidential audit process, and Treasury offered to continue to address the Committee's stated interest if it had further questions about the audit process. *See* Letter for Richard E. Neal, Chairman, Committee on Ways and Means, U.S. House of Representatives, from Frederick W. Vaughan, Deputy Assistant Secretary, Office of Legislative Affairs, Department of the Treasury (June 10, 2019).

<sup>26</sup> By contrast, other exceptions under section 6103 do expressly require a showing of purpose. *See, e.g.*, 26 U.S.C. § 6103(d)(1) (permitting disclosure to state tax officials "for the purpose of, and only to the extent necessary in, the administration of [state tax] laws"), (j)(1) (permitting disclosure to certain officials in the Department of Commerce "for the purpose of, but only to the extent necessary in, the structuring of censuses and national economic accounts and conducting related statistical activities authorized by law"), (k)(5) (permitting disclosure to state agencies regulating tax return preparers "only for purposes of the licensing, registration, or regulation of tax return preparers").

<sup>27</sup> *See* April 3 Neal Letter at 1 (stating that the Committee's request was "necessary . . . to determine the scope of any [mandatory presidential audit] examination and whether it includes a review of underlying business activities required to be reported on the individual income tax return"); April 13 Neal Letter at 1 (stating, in response to the Secretary's suggestion that the Committee lacked a legitimate legislative purpose, that the "request is in furtherance of consideration . . . of legislative proposals and oversight related to our Federal tax laws"); May 10 Neal Letter at 1 (subheading: "The Committee Has a Legitimate Legislative Purpose").

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process. The Committee's request reflects the next assay in a long-standing political battle over the President's tax returns. Consistent with their long-held views, Chairman Neal and other majority members have invoked the Committee's authority to obtain and publish these returns. Recognizing that the Committee may not pursue exposure for exposure's sake, however, the Committee has devised an alternative reason for the request.

The Committee's request presents a stark legal question. When faced with a congressional request for confidential taxpayer information, must the Secretary close his eyes and blindly accept a pretextual justification for that request? Or must the Secretary implement the statute in a manner faithful to constitutional limitations? We believe that the Executive's duty to "take Care that the Laws be faithfully executed," U.S. Const. art. II, § 3, permits only one answer. Where, as here, there is reason to doubt the Committee's asserted legislative purpose, Treasury may examine the objective fit between that purpose and the information sought, as well as any other evidence that may bear upon the Committee's true objective. In doing so, Treasury acts as part of a politically accountable branch with a constitutional duty to resist legislative intrusions upon executive power and therefore does not act under the same institutional constraints as the Judiciary. Here, because the Committee lacked a legitimate legislative purpose, its request did not qualify for the statutory exception to taxpayer confidentiality, and the law required Treasury to deny that request.

## A.

Congress granted the Ways and Means Committee the authority to obtain confidential tax information under section 6103(f). It is axiomatic, however, that "Congress cannot grant to an officer under its control what it does not possess." *Bowsher v. Synar*, 478 U.S. 714, 726 (1986). The Committee's authority under section 6103(f) therefore may not exceed the constitutional limitations on congressional power, which require that any committee investigation must serve a legitimate legislative purpose.

The Constitution vests certain "legislative Powers" in Congress. U.S. Const. art. I, § 1. Those legislative powers do not expressly include the "power to investigate," but such a power is "inherent in the power to make laws." *Eastland v. U.S. Servicemen's Fund*, 421 U.S. 491, 504 (1975); *see also McGrain v. Daugherty*, 273 U.S. 135, 161 (1927) ("In actual legislative practice, power to secure needed information . . . has long been treated as an attribute of the power to legislate."). Thus, "Con-

gress may conduct investigations in order to obtain facts pertinent to possible legislation and in order to evaluate the effectiveness of current laws.” *Scope of Congressional Oversight and Investigative Power with Respect to the Executive Branch*, 9 Op. O.L.C. 60, 60 (1985); *see also Quinn v. United States*, 349 U.S. 155, 160 (1955) (the investigative power is “co-extensive with the power to legislate”). Congress’s investigative authority also “comprehends probes into departments of the Federal Government to expose corruption, inefficiency, or waste.” *Watkins v. United States*, 354 U.S. 178, 187 (1957). But this “power to investigate must not be confused with any of the powers of law enforcement.” *Quinn*, 349 U.S. at 161.

The Supreme Court further has made clear that, “broad as is this power of inquiry, it is not unlimited,” because any congressional inquiry “must be related to, and in furtherance of, a legitimate task of the Congress.” *Watkins*, 354 U.S. at 187; *see Eastland*, 421 U.S. at 504 n.15 (the “boundaries” of Congress’s power to investigate “are defined by its source”); *Barenblatt v. United States*, 360 U.S. 109, 111 (1959); *see also* Alissa M. Dolan et al., Cong. Research Serv., RL30240, *Congressional Oversight Manual* 25 (Dec. 19, 2014) (“A committee’s inquiry must have a legislative purpose or be conducted pursuant to some other constitutional power of Congress[.]”). As relevant here, the Court has articulated one significant constraint on Congress’s investigative powers. “[T]here is no congressional power to expose for the sake of exposure.” *Watkins*, 354 U.S. at 200. In other words, “there is simply ‘no general authority to expose the private affairs of individuals without justification in terms of the functions of Congress.’” *Doe v. McMillan*, 412 U.S. 306, 330 (1973) (quoting *Watkins*, 354 U.S. at 187); *see also, e.g., Quinn*, 349 U.S. at 161 (“[T]he power to investigate . . . cannot be used to inquire into private affairs unrelated to a legislative purpose.”); *McGrain*, 273 U.S. at 173 (“[N]either house is invested with ‘general’ power to inquire into private affairs and compel disclosure[.]”); *Kilbourn v. Thompson*, 103 U.S. 168, 190 (1880) (neither the House nor the Senate “possesses the general power of making inquiry into the private affairs of the citizen”).

Although Congress’s investigative authority is sometimes described as including a so-called “informing function,” that function is merely “the power of the Congress to inform *itself*” of the facts needed to carry out legislative affairs. *Watkins*, 354 U.S. at 216 (emphasis added). The informing function does not grant Congress an independent authority to obtain and publicize confidential information. As the Court has made clear, “[v]aluable and desirable as it may be in broad terms, the transmit-

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tal of such information . . . in order to inform the public . . . is not a part of the legislative function.” *Hutchinson v. Proxmire*, 443 U.S. 111, 133 (1979); see *Miller v. Transamerican Press, Inc.*, 709 F.2d 524, 531 (9th Cir. 1983) (“The ‘informing function’ of Congress is that of informing itself about subjects susceptible to legislation, not that of informing the public.”); *McSurely v. McClellan*, 553 F.2d 1277, 1285–86 (D.C. Cir. 1976) (en banc) (“disseminat[ing] to the public beyond ‘the legitimate legislative needs of Congress’” is not encompassed within Congress’s “legislative activity”). The Court has therefore explained that “neither the investigatory nor, indeed, the informing function of Congress authorizes any ‘congressional power to expose for the sake of exposure.’” *McMillan*, 412 U.S. at 330 (quoting *Watkins*, 354 U.S. at 200). And this Department has issued an opinion making the same point, observing that “Congress’s legislative function does not imply a freestanding authority to gather information for the sole purpose of informing ‘the American people.’” *Assertion of Executive Privilege over Documents Generated in Response to Congressional Investigation into Operation Fast and Furious*, 36 Op. O.L.C. \_\_\_, at \*7 (June 19, 2012) (opinion of Attorney General Eric H. Holder, Jr.).

Because Congress may not authorize its agents to wield powers in excess of its own, section 6103(f) could not confer upon a tax committee a right to obtain confidential information that did not serve a legitimate legislative purpose. Congress could enact legislation that makes tax returns available to the public at large, but it has chosen instead to make them confidential and to prohibit Treasury from releasing them to unauthorized persons. Lacking any role in implementing the laws itself, Congress may confer upon its agents a right to request and receive confidential information only to the extent necessary to serve a legitimate legislative end. See *Bowsher*, 478 U.S. at 733–34 (“[O]nce Congress makes its choice in enacting legislation, its participation ends. Congress can thereafter control the execution of its enactment only indirectly—by passing new legislation.”). Therefore, despite the mandatory language of section 6103(f), we believe that the Constitution requires that the Committee establish a legitimate legislative purpose in support of its request for the President’s tax returns.<sup>28</sup>

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<sup>28</sup> The Congressional Research Service apparently agrees with this conclusion. See David H. Carpenter et al., Cong. Research Serv., LSB10275, *Congressional Access to the President’s Federal Tax Returns 2* (updated May 7, 2019) (recognizing that, despite the “plain language of Section 6103(f),” requests for tax returns under that provision “must

**B.**

While implicitly recognizing the need for a legislative purpose, Chairman Neal contends that the Executive may not “question or second guess” the Committee’s “reasonable determinations regarding its need for the requested tax returns and return information.” April 13 Neal Letter at 2. But the same constitutional limitations that constrain the Committee’s investigative authority prevent the Executive from treating the Chairman’s word on the matter as unquestionable. Just as Congress may not empower its agents to exceed the boundaries of legitimate legislative power, an assertion from a committee chairman may not prevent the Executive from confirming the legitimacy of an investigative request. Were it otherwise, the Secretary of the Treasury would effectively be delegating his own obligation to faithfully execute the laws to the committee chairman.

Section 6103 charges the Secretary with the “duty of protecting return information from disclosure to others *within the federal government*, and to the public at large.” *Tax Analysts v. IRS*, 117 F.3d 607, 613 (D.C. Cir. 1997) (emphasis added). Treasury is the repository of federal tax information, which consists largely of returns “filed with the Secretary,” 26 U.S.C. § 6103(b)(1), and other information “received by, recorded by, prepared by, furnished to, or collected by the Secretary,” *id.* § 6103(b)(2)(A). The Secretary is also charged with disclosing return information to those authorized to receive it. The exceptions to the general rule of taxpayer confidentiality are themselves phrased as instructions to “[t]he Secretary” (and his delegees). *Id.* § 6103(c)–(o). Thus, the Secretary must decide, in the first instance, whether a request meets the “pre-conditions” for any exception, and, if so, how to exercise his statutory authority. *EPIC v. IRS*, 910 F.3d 1232, 1242 (D.C. Cir. 2018). The statutory scheme would make little sense (and would provide scant guarantee of taxpayer confidentiality) if a requester were the sole arbiter of whether an exception had been satisfied.

This framework remains the same no matter whether the relevant limit on the request flows from the statute or from the Constitution. The need for Treasury to exercise judgment in making those decisions is necessarily at its peak when deferring to the request would effectively surrender the Executive’s obligations to a Member of Congress. When separating powers under the Constitution, the Founders’ “primary fears were directed

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further a ‘legislative purpose’ and not otherwise breach relevant constitutional rights or privileges”).

toward congressional self-aggrandizement.” *The Constitutional Separation of Powers Between the President and Congress*, 20 Op. O.L.C. 124, 131 (1996); *see also* *Mistretta v. United States*, 488 U.S. 361, 411 n.35 (1989) (noting the “special danger recognized by the Founders of congressional usurpation of Executive Branch functions”). The tripartite structure of the federal government was intended to act as a “self-executing safeguard against the encroachment or aggrandizement of one branch at the expense of the other.” *Buckley v. Valeo*, 424 U.S. 1, 122 (1976) (per curiam). Thus, Congress and its agents are forbidden from exercising authority beyond the legislative process and “from intervening in the decision making necessary to execute the law.” *The Constitutional Separation of Powers*, 20 Op. O.L.C. at 131.

Allowing a congressional committee to dictate when Treasury must keep tax information confidential and when it must disclose such information would impermissibly intrude on executive power by ceding control to the Committee over ensuring that section 6103 is implemented in a manner consistent with the constitutional limitations. *See, e.g., Bowsher*, 478 U.S. at 733–34 (declaring unconstitutional a statute purporting to allow the Comptroller General, a congressional agent, to “command[] the President himself to carry out . . . the directive of the Comptroller General”). In order to comply with the duty to faithfully execute the laws, U.S. Const. art. II, § 3, and to protect the Executive against legislative encroachments, Treasury must have the authority to determine whether a congressional request to disclose confidential tax information under section 6103(f) is within the appropriate scope of Congress’s constitutional authority, and in particular, whether the request has been made in furtherance of a legitimate legislative purpose.

This approach to section 6103 is consistent with how the Executive Branch addresses congressional requests for information in connection with congressional oversight. This Office has long advised that “a threshold inquiry that should be made [by the Executive] upon receipt of *any* congressional request for information is whether the request is supported by any legitimate legislative purpose.” *Response to Congressional Requests for Information Regarding Decisions Made Under the Independent Counsel Act*, 10 Op. O.L.C. 68, 74 (1986) (emphasis added). As then-Assistant Attorney General William Barr explained, the Executive Branch will assess its “interest in keeping [requested] information confidential” only after “it is established that Congress has a legitimate legislative purpose for its oversight inquiry.” *Congressional Requests for Confidential Executive Branch Information*, 13 Op. O.L.C. 153, 154 (1989). As a

result, “Congress’ duty to articulate its need for particular materials—to ‘point[] to . . . specific legislative decisions that cannot responsibly be made without access to materials uniquely contained in’ the privileged document it has requested”—is a mainstay of the accommodation process. *Id.* at 159 (quoting *Senate Select Comm. on Presidential Campaign Activities v. Nixon*, 498 F.2d 725, 733 (D.C. Cir. 1974) (en banc)); see also *Assertion of Executive Privilege in Response to a Congressional Subpoena*, 5 Op. O.L.C. 27, 31 (1981) (opinion of Attorney General William French Smith) (describing the Executive Branch’s obligation to accommodate “[i]n cases in which the Congress has a legitimate need for information that will help it legislate”).

In many circumstances, Treasury will not need to engage in close scrutiny of a congressional committee’s request under section 6103(f), because the underlying, legitimate purpose will be self-evident. But the separation of powers dictates that a congressional request cannot require the agency to close its eyes to overwhelming evidence that a congressional committee’s stated purpose is a pretext for an illegitimate one. If a committee does not provide any purpose to justify its request, then Treasury may request that the committee provide one. Given the criminal penalties for the unauthorized and willful inspection or disclosure of tax information, see 26 U.S.C. §§ 7213, 7213A, Treasury officials are within their rights to assure themselves that any disclosures are appropriately authorized.

That Treasury has the duty to implement section 6103 in a manner consistent with constitutional limitations should hardly generate controversy. Indeed, this approach is not only consistent with the constitutional separation of powers, but it also furthers the purposes underlying section 6103 itself. Congress reformed the system of taxpayer confidentiality in 1976 precisely to prevent the kinds of politically motivated abuses of authority that Congress feared would compromise the integrity of the federal tax-return system. See, e.g., S. Rep. No. 94-938, at 317. Treasury’s review of a congressional committee request, particularly one involving personally identifiable tax information, helps ensure against any breaches of those protections for the personal privacy of taxpayers.

### C.

In urging Treasury not to “second guess” the Committee’s request for the President’s tax returns, Chairman Neal contends that “the Supreme Court has consistently noted that the motivations underlying Congress-

sional action are not to be second guessed, *even by the courts.*” April 13 Neal Letter at 2 (emphasis added). That assertion rests upon a misunderstanding of the Court’s precedents. The courts have never abdicated their responsibility to review the authority underlying the congressional subpoena. But even where courts have expressed reluctance to probe congressional motivations in political disputes, they have done so for reasons that do not apply to review by the Executive Branch. Simply deferring to Congress’s assertions would constitute an abdication of the Executive Branch’s own constitutional responsibilities.

The Supreme Court has specifically rejected the proposition that a court may not police the boundaries of congressional inquiries. In *Watkins*, for example, the Supreme Court declined to “assume . . . that every congressional investigation is justified by a public need that overbalances any private rights affected.” 354 U.S. at 198. The House Un-American Activities Committee had claimed to be inquiring into Communist infiltration in labor. *Id.* at 212–14. But the Court found otherwise. After “[l]ooking at the entire hearings,” it found “strong reason to doubt that the subject revolved about labor matters,” noting that the title of the published transcript referred to “Communist Activities” without any reference to labor, and that “six of the nine witnesses had no connection with labor at all.” *Id.* at 213. Significantly, the Court rejected the committee’s argument that its inquiry must be sustained so long as there *could* have been any legislative purpose to support the committee’s inquiry. *Id.* at 204.

Similarly, in *Kilbourn*, although Congress asserted a purpose for its investigation (enforcing the payment of a debt), the Court did not treat that asserted purpose as conclusive. Instead, the Court examined the House resolution and concluded that the committee’s purpose was not a valid *legislative* purpose because it was more judicial in nature. 103 U.S. at 194. And in *United States v. Rumely*, 345 U.S. 41 (1953), the Court affirmed the reversal of a conviction for contempt of Congress because the Court refused to read a committee’s authority to investigate lobbying activities as extending to an individual who did not directly lobby Congress. *Id.* at 47. And it did so even though the resolution authorizing the inquiry and the Chairman’s statement of purpose “ma[de] plain” that the committee sought “to probe the sources of support of lobbyists,” including those who sought to influence “directly *or indirectly*, the passage or defeat of any legislation by the Congress,” *id.* at 53–54 (Douglas, J., concurring) (emphasis added). The Court refused to be “that blind court . . . that does not see what all others can see and understand” and does not “know that there is wide concern, both in and out of Congress, over some



aspects of the exercise of the congressional power of investigation.” *Id.* at 44 (internal quotation marks and brackets omitted).

Moreover, when affirming the legitimacy of legislative purposes, courts have sometimes noted that there had not been any suggestion of a potentially improper purpose. In *McGrain*, for instance, the Court inferred from Senate resolutions that an investigation’s object was “to obtain information for legislative purposes,” but the Court expressly noted that “[i]t is not as if an inadmissible or unlawful object were affirmatively and definitely avowed” in the authorizing resolutions or committee proceedings. 273 U.S. at 177, 180. And in *United States v. American Telephone & Telegraph Co.*, 551 F.2d 384 (D.C. Cir. 1976), the court observed that the parties conceded that a House subcommittee was “inquiring into a suitable area of federal legislation,” and expressly noted the absence of any “allegation that Congress is seeking to ‘expose for the sake of exposure.’” *Id.* at 393 (quoting *Watkins*, 354 U.S. at 200).

Where courts have declined to engage in searching inquiries about congressional motivation, they have phrased their reluctance in terms of the institutional limits on the Judicial Branch. As the Supreme Court has explained: “In times of political passion, dishonest or vindictive motives are readily attributed to legislative conduct and as readily believed. Courts are not the place for such controversies. Self-discipline and the voters must be the ultimate reliance for discouraging or correcting such abuses.” *Tenney v. Brandhove*, 341 U.S. 367, 378 (1951) (footnote omitted). As a result, “courts should not go beyond the narrow confines of determining that a committee’s inquiry may fairly be deemed within its province.” *Id.* (emphasis added); see also, e.g., *Watkins*, 354 U.S. at 200 (“Such is not our function.”) (emphasis added); *Barenblatt*, 360 U.S. at 132 (“So long as Congress acts in pursuance of its constitutional power, the Judiciary lacks authority to intervene on the basis of the motives which spurred the exercise of that power.” (emphasis added)); *Eastland*, 421 U.S. at 509 (“The wisdom of congressional approach or methodology is not open to judicial veto.”) (emphasis added)).<sup>29</sup>

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<sup>29</sup> A district court recently applied the same judicial presumption in declining to block the enforcement of a different House committee’s subpoena to Mazars USA LLP, an accounting firm, for financial records relating to President Trump and associated business entities. See *Trump v. Comm. on Oversight & Reform of the U.S. House of Representatives*, No. 19-cv-1136, 2019 WL 2171378 (D.D.C. May 20, 2019), *appeal docketed*, No. 19-5142 (D.C. Cir. May 21, 2019). The district court recognized that Congress’s investigative powers have limits, and that there is no congressional authority to expose for the

The Court's decisions in this area rest upon institutional constraints on the Judiciary that militate in favor of deference to the decisions of the political branches of government. Absent a threat to an identified constitutional right, "a legislative choice is not subject to courtroom factfinding and may be based on rational speculation unsupported by evidence or empirical data." *FCC v. Beach Communications, Inc.*, 508 U.S. 307, 315 (1993); *see also Trump v. Hawaii*, 138 S. Ct. 2392, 2420 (2018) ("Given the standard of review, it should come as no surprise that the Court hardly ever strikes down a policy as illegitimate under rational basis scrutiny."); *Marshall Field & Co. v. Clark*, 143 U.S. 649, 673 (1892) (deeming "forbidden by the respect due to a coördinate branch of the government" "[j]udicial action" requiring a belief in a "deliberate conspiracy" by the Senate and House of Representatives "to defeat an expression of the popular will").

Separated from the democratic process, the federal courts are not well equipped to second-guess the action of the political branches by close scrutiny of their motivations. This is why the Supreme Court has recognized that, so long as Congress "acts in pursuance of its constitutional power, the Judiciary lacks authority to intervene on the basis of the motives which spurred the exercise of that power." *Barenblatt*, 360 U.S. at 132 (emphasis added). "The Constitution presumes that, absent some reason to infer antipathy, even improvident decisions will eventually be rectified by the democratic process and that judicial intervention is generally unwarranted no matter how unwisely we may think a political branch has acted." *Beach Communications*, 508 U.S. at 314 (internal quotation marks and citation omitted).

These same limitations do not apply to the Executive Branch, which operates as a politically accountable check on the Legislative Branch. The Founders separated the President from the Congress, giving him "a separate political constituency, to which he alone was responsible," and "the means to resist legislative encroachment" upon his duty to execute the laws. *Freytag v. Comm'r*, 501 U.S. 868, 906 (1991) (Scalia, J., concurring

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sake of exposure. *Id.* at \*9. Yet the district court reasoned that "[w]hen a court is asked to decide whether Congress has used its investigative power improperly, its analysis must be highly deferential to the legislative branch." *Id.* Whether or not the district court correctly applied this presumption in a case involving a congressional subpoena to a private party, its posture of deference does not bear upon our conclusion that Treasury, as part of a co-equal political branch, has an independent duty to determine accurately whether the Committee's section 6103(f) request furthers a legitimate legislative purpose.

in part and concurring in the judgment); *see also The Constitutional Separation of Powers*, 20 Op. O.L.C. at 128 (explaining that the Executive’s “independent constitutional obligation to interpret and apply the Constitution” is “of particular importance in the area of separation of powers, where the issues often do not give rise to cases or controversies that can be resolved by the courts . . . due in part to the limits of jurisdiction and justiciability”). The head of the Executive Branch, who is elected separately from Congress, ultimately must answer to the people for the manner in which he exercises his authority. The separation of powers would be dramatically impaired were the Executive required to implement the laws by accepting the legitimacy of any reason proffered by Congress, even in the face of clear evidence to the contrary. In order to prevent the “special danger . . . of congressional usurpation of Executive Branch functions,” *Mistretta*, 488 U.S. at 411 n.35, we believe that Treasury must determine, for itself, whether the Committee’s stated reason reflects its true one or is merely a pretext.

### III.

Applying the foregoing legal framework, we concluded that the Secretary reasonably and correctly found that the Committee lacked a legitimate purpose for seeking six years of the President’s tax information. The Committee’s asserted purpose—to consider legislation regarding the IRS’s practices in auditing presidential tax filings—was implausible. The objective mismatch between the Committee’s stated purpose, on the one hand, and the particular information that the Committee demanded, on the other, provided strong evidence of pretext. In addition, the nature of the request, the long series of events that preceded it, and Chairman Neal’s pointed failure to renounce his oft-proclaimed purpose of publicly releasing the President’s tax returns all confirm that the Committee’s purpose was the constitutionally impermissible one of forcing the public disclosure of the President’s tax returns.

#### A.

According to Chairman Neal, the Committee requested President Trump’s tax information to “consider[] legislative proposals and conduct[] oversight related to our Federal laws, including, but not limited to, the extent to which the IRS audits and enforces the Federal tax laws against a President.” April 3 Neal Letter at 1. To achieve that purpose, he reasoned, “[i]t is necessary for the Committee to determine the scope of

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any such examination and whether it includes a review of underlying business activities required to be reported on the individual income tax return.” *Id.* The Committee therefore claimed to be interested in the IRS’s conduct of audit policy, not the President’s underlying business affairs. But the Committee had requested the individual returns of Donald J. Trump and those of eight associated business entities for the past six years (2013 through 2018); information related to audits of any of those returns; and all administrative files for those returns. *Id.* at 1–2.

Although a review by the Committee of the IRS’s performance of its duties would appear, on its face, to be an example of routine oversight, *see Watkins*, 354 U.S. at 187, we agree with the Secretary that the Committee’s request does not objectively “fit” this stated purpose. April 23 Mnuchin Letter at 4. First, many of the requested documents are barely relevant to reviewing the IRS’s auditing of the President’s tax returns. The tax returns themselves precede any audit and do not include any information about the audit processes. At the same time, as the Secretary repeatedly noted, the Committee had expressed no interest in the actual IRS documents that would provide the best evidence of its policies and procedures relating to presidential audits. If the Committee were sincerely interested in IRS policies and practices, then it surely would have started by requesting that Treasury provide information about those policies. As the Secretary explained, “[a]lthough the IRS has conducted mandatory examinations of Presidents’ tax returns since 1976, the Committee does not request additional information about those policies or ask whether those policies and procedures have changed over time.” *Id.*<sup>30</sup> Senator Grassley, who as Chairman of the Senate Finance Committee has the same powers as Chairman Neal under section 6103(f), made precisely the same point: “If Democrats are truly interested in finding out the level of scrutiny given to a President’s tax returns, why not simply just ask the IRS to describe its audit procedure? That is a very straightforward question[.]” 165 Cong. Rec. S2259 (daily ed. Apr. 4, 2019).

While the Committee requested the “administrative files” accompanying the President’s tax returns, which would include audit-related information, Chairman Neal’s press release mentioned only the President’s tax returns in its title (“Neal Statement on Requesting President Trump’s Tax Returns”), mentioned the returns three additional times in its text, and

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<sup>30</sup> Indeed, it was not until after Treasury had denied both the Committee’s request and the follow-on subpoenas that the Committee’s staff agreed to receive a briefing from Treasury supplying such information. *See supra* note 25.

never addressed the other documents. *See supra* note 22. The Committee’s lack of interest in the IRS’s audit policies and procedures, or in the audits themselves, speaks volumes.

Second, the Committee requested six years of the President’s tax returns, but only the last two years correspond to his time in office. Chairman Neal was candid in stating that he would have gone back even further, but he believed such a judgment would be hard to defend in court. According to Chairman Neal, “[t]he six-year decision was reached *because the IRS advises you should retain six years of your tax records*. . . . And we thought if this were to end up in court we didn’t want an issue, for example if you were requesting eight years, where it would be thrown out based on a technicality.”<sup>31</sup> Although Chairman Neal’s concern for a taxpayer’s retention of his records would not seem to have any bearing upon a request directed towards the IRS, what is perfectly clear is that his stated rationale had no connection at all with the IRS audit procedures supposedly under investigation. Nor does his reason for choosing six rather than eight years reflect any interest in *presidential* tax returns, as Donald Trump was not President in 2011, any more than he was in 2013 or 2016.

Third, the Committee’s exclusive focus on a single taxpayer, President Trump, belies its stated interest in investigating an IRS audit program that has applied to all Presidents and Vice Presidents since 1977. Chairman Neal justified the Committee’s exclusive interest in President Trump on the ground that he is “unique,” owing to the “volume of his tax returns” and his businesses. May 10 Neal Letter at 2. But it seems doubtful that the Committee, if it genuinely sought to evaluate the effectiveness of IRS’s presidential-audit program, would decide at the outset to rely on a sample consisting of only one conceded outlier.

Furthermore, audits take time. By limiting itself to the returns of “the only President for whom the audit process necessarily remains ongoing,” April 23 Mnuchin Letter at 4, the Committee simply increased the chances that it would see fewer completely audited returns than it would if it had included, say, those for President Obama and Vice President Biden between 2013 and 2016. Focusing on older presidential and vice presidential returns would also have been more consistent with IRS policy by

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<sup>31</sup> Erica Werner, Damian Paletta, and Jeff Stein, *White House maneuvers to block release of Trump’s tax returns*, Wash. Post, Apr. 4, 2019, [https://www.washingtonpost.com/business/economy/white-house-maneuvers-to-block-release-of-trumps-tax-returns/2019/04/04/047b19e0-56f4-11e9-8ef3-fbd41a2cc4d5\\_story.html](https://www.washingtonpost.com/business/economy/white-house-maneuvers-to-block-release-of-trumps-tax-returns/2019/04/04/047b19e0-56f4-11e9-8ef3-fbd41a2cc4d5_story.html) (emphasis added).

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avoiding potential interference with any current audit activities. *See* Internal Revenue Manual § 11.3.4.4, ¶ 13 (Jan. 1, 2019) (providing that “[r]ecords relating to cases that are under active investigation may be disclosed if, in the opinion of the appropriate functional head, no serious adverse effect on the administration of the tax laws will result from disclosure of the open case records”). By choosing an unrepresentative sample of presidential and vice presidential returns, the Committee made it even less likely that the Committee could learn anything bearing upon legislative changes to the IRS’s program. Nor, with information about only one person and his businesses, would the Committee even begin to be able to assess whether the IRS’s policies and procedures are being applied in an evenhanded manner in the presidential-audit program.

Thus, an objective assessment of the request confirms the Secretary’s observation that “the terms of the Committee’s request” did not “fit the Committee’s asserted purpose” of investigating “the extent to which the IRS audits and enforces the Federal tax laws against a President.” April 23 Mnuchin Letter at 4.

**B.**

At the same time, the Committee’s request appeared to be “perfectly tailored” to accomplish the Chairman’s long-standing and avowed goal, namely “to obtain and expose the President’s tax returns.” April 23 Mnuchin Letter at 4. As explained above, Chairman Neal and other Members have engaged in a prolonged campaign to force public disclosure, repeatedly urging the Committee to invoke section 6301(f) to serve that cause. They pledged to “remain steadfast in [their] pursuit of” public disclosure of the returns. H.R. Rep. No. 115-309, at 8 (dissenting views); H.R. Rep. No. 115-73, at 8 (dissenting views). They made the promised disclosure a recurring issue and, after the election, pledged to accomplish that goal.

During these political debates, Chairman Neal and his political allies asserted many reasons for reviewing the President’s tax returns, *see supra* note 19 and accompanying text, yet many of them would fall outside the jurisdiction of the Ways and Means Committee, which is the only House committee that could release the returns to the public. By contrast, the Ways and Means Committee does have jurisdiction to review IRS audit practices. On April 5, Chairman Neal candidly acknowledged that the Committee had sought to “construct[]” a “case” for acquiring the returns that would “stand up under the critical scrutiny of the federal courts.” *See*

*supra* note 23. That is transparently the reason why the Committee now claims an interest in presidential-audit practices.

In his correspondence with Treasury, Chairman Neal asserted that any “concerns about what the Committee may do with the tax returns . . . are baseless.” April 13 Neal Letter at 2. But his letter did not deny the Committee’s plan. Chairman Neal said only that Treasury “must assume that the Committee Members . . . will act properly in the conduct of their official duties.” *Id.* He neither made any promises against publicly releasing the tax returns nor renounced his previously “steadfast” “pursuit” of their public release. We do not disagree that a committee may make “a valid legislative inquiry” even though there is “no predictable end result” as to where the investigation would lead. *Id.* (quoting *Eastland*, 421 U.S. at 509). But congressional investigations must start with a legitimate subject of inquiry. By contrast, here, as the Secretary recognized, the Committee began precisely “in the opposite direction” by deciding the documents it sought to obtain and seeking, “in Chairman Neal’s words—to ‘construct[]’ a ‘case’ for seeking the documents.” April 23 Mnuchin Letter app. A, at 4. There is one and only one “predictable end result” of the Committee’s inquiry: the public exposure of the President’s tax returns.

Under the circumstances, we do not believe that Treasury was required to “blind” itself to the “wide concern, both in and out of Congress,” about the nature of the Committee’s request. *Rumely*, 345 U.S. at 44 (internal quotation marks omitted); *see also* 165 Cong. Rec. S2260 (daily ed. Apr. 4, 2019) (statement of Sen. Grassley) (concluding that the April 3 request was “very, very short” of “hav[ing] a legitimate legislative purpose”); Letter for Richard E. Neal, Chairman, Committee on Ways and Means, U.S. House of Representatives, from Kevin Brady, Ranking Member, Committee on Ways and Means, U.S. House of Representatives (May 10, 2019) (“[I]t has become obvious that your supposed legislative purpose is just a pretext, and your request is merely a means to access and make public the tax returns of a single individual for purely political purposes. This is not a legitimate legislative purpose[.]”) (footnote omitted). The openly partisan nature of this dispute would understandably make the courts wary of interceding.<sup>32</sup> But Treasury had no such choice. It could

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<sup>32</sup> *Cf. Raines v. Byrd*, 521 U.S. 811, 833 (1997) (Souter, J., concurring in judgment) (noting that judicial intervention in disputes between the political branches “risk[s] damaging the public confidence that is vital to the functioning of the Judicial Branch . . . by embroiling the federal courts in a power contest nearly at the height of its political

*Congressional Committee's Request for the President's Tax Returns*

not abstain or declare the matter nonjusticiable. It was required to faithfully carry out its duties, either by releasing the tax information in response to a legitimate request or by maintaining its confidentiality under section 6103(a). There could be no middle ground.

For all the foregoing reasons, we believe that the Secretary reasonably and correctly concluded that the Committee's stated purpose was pretextual and its actual purpose was simply to provide a means for public disclosure of the President's tax returns. Given that Congress may not pursue public disclosure for its own sake, *see, e.g., Hutchinson*, 443 U.S. at 133; *McMillan*, 412 U.S. at 330; *Watkins*, 354 U.S. at 200, disclosure was not authorized under section 6103(f), and section 6103(a) therefore required Treasury to maintain confidentiality of the requested tax information.

## IV.

Because section 6103(a) prohibited the disclosure of the tax returns sought in Chairman Neal's April 3 request, as well as in the corresponding subpoenas, Treasury's refusal to provide the information did not violate either 26 U.S.C. § 7214(a)(3) or 2 U.S.C. § 192.

Under 26 U.S.C. § 7214(a)(3), it is a crime for "[a]ny officer or employee of the United States acting in connection with any revenue law of the United States" to "fail[] to perform any of the duties of his office or employment" "with the intent to defeat the application of any provision" of the Internal Revenue Code. Treasury's denial to the Committee of the requested information did not violate that statute. Far from a *failure* to perform any "duties" in connection with the revenue law, the Secretary and other officials at Treasury faithfully implemented their duties under section 6103(a) in response to a request for a disclosure that would not be authorized under section 6103(f). In addition, given the statute's intent requirement, they did not act with an "intent to defeat the application of" section 6103(f), when they acted in good faith after consulting with you and with this Office.

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tension"); *Goldwater v. Carter*, 444 U.S. 996, 1004 (1979) (Rehnquist, J., concurring in the judgment) (explaining that case was nonjusticiable because, among other things, "we are asked to settle a dispute between coequal branches of our Government, each of which has resources available to protect and assert its interests, resources not available to private litigants outside the judicial forum"); *Gravel v. United States*, 408 U.S. 606, 640 (1972) (Douglas, J., dissenting) ("The federal courts do not sit as an ombudsman refereeing the disputes between the other two branches.").



For similar reasons, Treasury officials did not violate the contempt-of-Congress provision, 2 U.S.C. § 192, by failing to turn over confidential records in response to a Committee subpoena that lacks a valid legislative purpose. This Office has recognized that the Department of Justice will not prosecute an executive branch official under section 192 for refusing to provide information to Congress in order to protect executive prerogatives. *See, e.g., Attempted Exclusion of Agency Counsel from Congressional Depositions of Agency Employees*, 43 Op. O.L.C. \_\_, \*13–14 (May 23, 2019); *Prosecution for Contempt of Congress of an Executive Branch Official Who Has Asserted a Claim of Executive Privilege*, 8 Op. O.L.C. 101, 101–02 (1984); *see also Prosecutorial Discretion Regarding Citations for Contempt of Congress*, 38 Op. O.L.C. \_\_, \*1 (June 16, 2014) (“[A] U.S. Attorney to whom a contempt of Congress citation is referred retains traditional prosecutorial discretion regardless of whether the contempt citation is related to an assertion of executive privilege.”).

The same rationale applies to a determination that federal law does not authorize Treasury to share the President’s tax information with the Committee. The Committee’s power to conduct investigations is itself limited by the need for the inquiry to be in support of a legitimate legislative purpose. *See, e.g., Watkins*, 354 U.S. at 187. Because the Committee’s request lacked a legitimate legislative purpose and therefore exceeded its constitutional power of inquiry, Congress may not use its subpoena power to enforce an unconstitutional demand for information. The subpoenas were effectively null and void. And, given the lack of an applicable statutory exception, compliance with the subpoenas would have been prohibited by section 6103(a). Accordingly, the refusal by the Treasury officials to comply with the subpoenas did not violate 2 U.S.C. § 192.

## V.

For these reasons, we advised that the Committee’s request for the President’s tax information under 26 U.S.C. § 6103(f) should be denied. Congress could not constitutionally confer upon the Committee the right to compel disclosure by the Executive Branch of confidential information that did not serve a legitimate legislative purpose. While the Executive Branch should accord due deference and respect to congressional requests, Treasury was not obliged to accept the Committee’s stated purpose without question, and based on all the facts and circumstances, we agreed that the Committee lacked a legitimate legislative purpose for its request. In the absence of such a legitimate purpose, 26 U.S.C. § 6103(a)

*Congressional Committee's Request for the President's Tax Returns*

barred Treasury from disclosing the President's tax information in response to the Chairman's letter or the subsequent subpoenas.

STEVEN A. ENGEL  
*Assistant Attorney General*  
*Office of Legal Counsel*

JOYCE BEATTY  
 Ohio, 3rd District  
 COMMITTEE ON  
 FINANCIAL SERVICES  
 SUBCOMMITTEE ON HOUSING AND INSURANCE  
 SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

**Congress of the United States**  
**House of Representatives**  
 Washington, DC 20515-3503

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February 14, 2018

Honorable Eric M. Thorson  
 Inspector General  
 U.S. Department of Treasury  
 1500 Pennsylvania Avenue, NW, Room 4436  
 Washington, DC 20220

Dear Inspector General Thorson:

I write to request an investigation into the Department of Treasury's compliance with Section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank).<sup>1</sup>

Section 342 of Dodd-Frank mandated the establishment of the Office of Minority and Women Inclusion (OMWI) at the Departmental Offices of the Treasury, along with several other federal financial regulators.<sup>2</sup> Each OMWI Director is required to advise the agency administrator on the impact of the agency's policies and regulations on minority-owned and women-owned businesses.<sup>3</sup> Additionally, each OMWI Director is required to submit an annual report to Congress on the actions taken by the agency to comply with Section 342.<sup>4</sup>

Despite the fact that the Office of Inspector General (OIG) initiated a thorough audit of the Department of Treasury's compliance with Section 342 of Dodd-Frank and issued a report on August 30, 2016, concluding the Department had generally carried out its functions consistent with the law, recent statements by the Secretary of the Treasury calls for the OIG to revisit the Department's compliance in this area. Specifically, I request that you use your authority under the Inspector General Act of 1978 to review the following questions:

**1. Is the Department of Treasury in compliance with Section 342(b)(3)?**

As stated earlier, Section 342 of the Dodd-Frank Act, specifically states "[e]ach Director shall advise the agency administrator on the impact of the policies and regulations of the agency on minority-owned and women-owned businesses."<sup>5</sup>

<sup>1</sup> Pub. L. No. 111-203, § 342 (2010).

<sup>2</sup> *Id.* at § 342(a)(1).

<sup>3</sup> *Id.* at § 342(b)(3).

<sup>4</sup> *Id.* at § 342(e).

<sup>5</sup> *Id.* at § 342(b)(3).

In a Question for the Record<sup>6</sup> I submitted to the Secretary of the Treasury after he testified before the House Committee on Financial Services on July 27, 2017, I asked if he had the opportunity to meet with the Department's OMWI Director. He confirmed that he had not met with the OMWI Director. More recently, during the Secretary's testimony before the House Committee on Financial Services on February 6, 2018, when asked again if he had met with the Department's OMWI Director, he confirmed that he had not. In fact, when asked whether or not he even knew the name of his own Department's OMWI Director, he said, "I don't know who the person is..."<sup>7</sup>

In light of these revelations by the Secretary, it would appear to be a stretch at best, to say the Department is in compliance with the text or spirit of the law. The Secretary has made it clear that in the year he has led the agency, not only has he not met with the Department's OMWI Director, he has made it clear he has no idea of who the person even is. This appears to be a clear violation of the requirements of Section 342 of Dodd-Frank.

## 2. Does the OMWI Director report directly to the Secretary of the Treasury?

In the same Question for the Record submitted to the Secretary as mentioned above, the Secretary stated that while he had not met with the Department's OMWI Director, he interacts daily with the person the OMWI Director reports to, the Assistant Secretary for Management.

This answer is troubling for two reasons:

(1) Section 342(b)(3) states that the OMWI Director shall advise the "agency administrator." Under Section 342(g)(2), the term "agency administrator" refers to the head of the agency, which in this case, is the Secretary.

(2) In the OIG's 2016 Audit Report,<sup>8</sup> the OIG found that the OMWI Director was the "principal advisor to the Secretary of the Treasury" and that "an action memorandum dated January 21, 2011, established a reporting line between [Treasury's] OMWI Director and the Secretary."<sup>9</sup>

The law clearly states the OMWI Director shall advise the Secretary – not the Assistant Secretary for Management or any other designee of the Secretary. If the Department has altered this reporting line or designated the Assistant Secretary for Management to be solely advised by the OMWI Director, this should be rectified.

<sup>6</sup> See Appendix 1; Committee on Financial Services, hearing entitled, "The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System" (July 27, 2017).

<sup>7</sup> Bloomberg Government, Transcripts and Reports: House Financial Services Committee Hearing on Annual Report of the Financial Stability Oversight Council, (February 6, 2018), available at <https://www.bgov.com/core/news/articles/P3R3D88JMD0> (Please note this is an unofficial transcript).

<sup>8</sup> Office of Inspector General Department of Treasury, *Treasury DO's Office of Minority and Women Inclusion is Generally Carrying Out its Functions Consistent With Dodd-Frank Act*, OIG-16-054 (2016).

<sup>9</sup> *Id.* at 7-8.

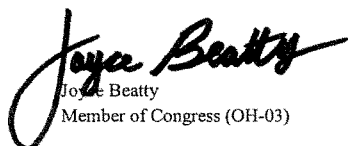
**3. Does the 2016 Annual Report to Congress exist? If so, why are the Department's OMWI reports not readily available online, like every other regulator's OMWI reports?**

In preparation for the Secretary's testimony before the House Committee on Financial Services on February 6, 2018, my office requested from the Department's OMWI Director, Lorraine Cole, the Department's 2016 Annual Report to Congress. To date, my office still has not received this report.

This report should normally not be a problem to obtain or find because the federal financial regulators subject to Section 342 of OMWI all publish the reports on their websites,<sup>10</sup> in practice. However, the Department of Treasury is the sole exception. This begs the question whether the Department of Treasury's OMWI published a 2016 Report to Congress at all? It also raises the question of whether the report was transmitted to Congress and why are the reports not available to the public online, like the other regulatory entities make available?

I request that you immediately look into the above issues I have raised and any and all related matters you deem necessary to determine whether or not the Department of Treasury is in compliance with Section 342 of the Dodd-Frank Act.

Sincerely,

  
Joyce Beatty  
Member of Congress (OH-03)

Cc: Rep. Jeb Hensarling, Chairman, Committee on Financial Services  
Rep. Maxine Waters, Ranking Member, Committee on Financial Services

<sup>10</sup> See Federal Deposit Insurance Corporation, *Section 342 Dodd-Frank Wall Street Reform and Consumer Protection Act 2016 Report to Congress*, available at <https://www.fdic.gov/about/diversity/rte-3-22-17.pdf>; Federal Housing Finance Agency, *OMWI Annual Report to Congress* (2016), available at <https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/OMWI-2016-Annual-Report.pdf>; Board of Governors of the Federal Reserve System, *Report to the Congress on the Office of Minority and Women Inclusion*, (2016), available at <https://www.federalreserve.gov/publications/files/omwi-report-20170331.pdf>; National Credit Union Administration, *Office of Minority and Women Inclusion 2016 Annual Report to Congress*, available at <https://www.ncua.gov/About/leadership/Pages/minority-women-inclusion/documents/2016-omwi-congressional-report.pdf>; Office of the Comptroller of the Currency, *2016 Annual Report to Congress*, available at <https://www OCC.gov/about/who-we-are/occ-for-you/diversity-and-inclusion-programs/omwi/fy-2016-omwi-dodd-frank-section-342-annual-report.pdf>; U.S. Securities and Exchange Commission, *Office of Minority and Women Inclusion Annual Report to Congress* (2016), available at <https://www.sec.gov/files/SEC%20OMWI%20FY%202016%20Annual%20Report%20to%20Congress%20508%20FV.pdf>; Consumer Financial Protection Bureau, *Office of Minority and Women Inclusion Annual Report to Congress* (2016), available at [https://s3.amazonaws.com/files.consumerfinance.gov/documents/201703\\_cfpb\\_OMWI-2016-annual-report.pdf](https://s3.amazonaws.com/files.consumerfinance.gov/documents/201703_cfpb_OMWI-2016-annual-report.pdf)

**Excerpt from**  
**Questions for the Record Submitted to Mr. Steven Mnuchin**  
**House Financial Services Committee**  
**July 27, 2017**

As you may know, Section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, Pub.L.111-203, established the Offices of Minority and Women Inclusion within many of the federal financial regulators in an effort to increase diversity in their respective agencies and within their regulated entities. Since becoming Treasury Secretary, to the date of your testimony before the Committee on Financial Services, have you have an opportunity to meet with the Director of the OMWI office at the Treasury Department? If so, how many times have you met and what did you discuss at these meetings?

**Answer:** I have not had an opportunity to meet Dr. Lorraine Cole, who heads Treasury's OMWI office. I do interact daily with the Assistant Secretary for Management Kody Kinsley, who reports to me and manages and briefs me on many management issues and program areas in the Department. Assistant Secretary Kinsley meets regularly with Dr. Cole, who reports to him.

MAXINE WATERS, CA  
CHAIRWOMAN

United States House of Representatives  
Committee on Financial Services  
Washington, DC 20515

PATRICK McHENRY, NC  
RANKING MEMBER

May 6, 2019

The Honorable Kenneth Blanco  
Director  
Financial Crimes Enforcement Network  
U.S. Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, D.C. 20220

Dear Director Blanco:

I appreciate your willingness to meet with me last week regarding the ongoing debate on beneficial ownership legislation. Unfortunately, our meeting left me with little new information.

According to your agency's website, "FinCEN carries out its mission by receiving and maintaining financial transactions data [and] analyzing and disseminating that data for law enforcement purposes." I was disappointed that, despite my specific requests, you presented no data during the course of our meeting.

The Financial Services Committee sits on the brink of considering significant legislation that will impose new burdens on every small business across this nation. We cannot in good conscious support that legislation without data to support it. For that reason, I request an additional meeting with you no later than Thursday, May 9<sup>th</sup>, to discuss in granular detail the need for beneficial ownership legislation. I again urge you to come prepared to discuss the specific data analysis that has guided FinCEN's support for this effort.

It is inappropriate for Congress to legislate by anecdote. I look forward to a more productive conversation this week.

Sincerely,  
  
Patrick McHenry  
Ranking Member

JEB HENSARLING, TX, CHAIRMAN

United States House of Representatives  
**Committee on Financial Services**  
 2129 Rayburn House Office Building  
 Washington, DC 20515

MAXINE WATERS, CA, RANKING MEMBER

September 12, 2018

The Honorable Steven Mnuchin  
 Secretary  
 U.S. Department of the Treasury  
 1500 Pennsylvania Avenue, NW  
 Washington, D.C. 20500

Dear Secretary Mnuchin:

As you know, the “John S. McCain National Defense Authorization Act for Fiscal Year 2019” includes as Title XVII the “Foreign Investment Risk Review Modernization Act of 2018” (FIRRMA). This Title is the product of extensive negotiations between the House Committee on Financial Services, the Senate Committee on Banking, Housing, and Urban Affairs, and the Treasury Department (Department). This Title makes important updates to the Committee on Foreign Investment in the United States (CFIUS), with the goal of protecting national security and maintaining the country’s open investment climate. As the Department embarks on FIRRMA-related rulemaking, we are writing to outline several priorities of the Financial Services Committee, and to confirm congressional intent behind certain provisions.

**Non-controlling Investments**

During House consideration of FIRRMA, our Committee emphasized that, for the purposes of CFIUS, “critical infrastructure” should only apply to a specific subset of systems and assets important to national security. While the federal government has made note of numerous “critical infrastructure sectors,” these sectors encompass virtually every area of economic activity in the United States, and clearly should not serve as the basis for critical infrastructure’s scope under CFIUS. This is why the reference to critical infrastructure sectors was removed during conference negotiations. We are pleased that, in discussions with you and your staff during FIRRMA’s consideration, the Department confirmed that CFIUS will only scrutinize particular types of U.S. critical infrastructure having an explicit link to national security. FIRRMA’s requirements, moreover, underscore the need to narrow CFIUS’s scope in this manner.

**Country Specification**

Given CFIUS’s national security objectives, we trust that the “categories of foreign persons” described in subsection (a)(4)(E) of Section 721 of the Defense Production Act, as amended by FIRRMA, will focus on countries or governments that pose the greatest national security risk through investment in the United States. We encourage CFIUS to specify China and Russia in particular. Our NATO allies and other friends around the world – including countries such as Japan, South Korea, Singapore, Australia, New Zealand, and Israel – should not be the target of CFIUS’s limited resources given the ongoing risks posed by Beijing and Moscow.



The Honorable Steven Mnuchin  
September 12, 2018  
Page 2

#### **Sensitive Personal Data**

Under FIRRMA, CFIUS will have jurisdiction over certain non-controlling investments in a business maintaining or collecting “sensitive personal data of United States citizens that may be exploited in a manner that threatens national security.” We would highlight certain limitations imposed by this language, which was preserved in conference from the House-passed version of FIRRMA. The House was deliberate in its use of “sensitive personal data,” as opposed to the broader concept of “personally identifiable information,” the latter of which may have little or no relevance to national security. Congress’s intent is further reinforced by specifying that CFIUS should only be concerned with such data when it “may be exploited in a manner that threatens national security.” The bar, in other words, is intentionally high: information that may simply identify individuals, or prove a source of embarrassment if disclosed, is not sufficient to trigger CFIUS jurisdiction without the potential to threaten national security.

#### **Pilot Programs**

Through discussions with your staff, the Department made clear that pilot programs authorized under FIRRMA were envisaged for non-controlling investments involving critical technologies and particular foreign investors. The Committee expects to undertake appropriate oversight to ensure that any CFIUS pilot programs are consistent with these discussions and adhere to the explicit authorities laid out in FIRRMA.

#### **United States Business Definition**

As you know, CFIUS regulations currently limit jurisdiction to investments in a United States business, but only to the extent of the business’s activities in interstate commerce. We believe this limitation is important, and during conference discussions, Treasury staff confirmed that CFIUS has no intention of altering it.

#### **CFIUS Operations**

We remain concerned by CFIUS’s progress in understanding staffing needs and addressing resource limitations, as documented in two recent reports by the Government Accountability Office.<sup>1</sup> For CFIUS authorities to maintain robust congressional support, the exercise of those authorities must receive appropriate attention in the budgets of CFIUS agencies. Without sufficient resources, CFIUS will be unable to operate effectively, and it will inject uncertainty and delays into the review process, threatening the open investment climate that we all agree is essential to the national interest. FIRRMA therefore requires CFIUS member agencies to detail their spending needs to Congress.

FIRRMA’s enactment came with strong bipartisan support. Looking ahead, continued congressional confidence in CFIUS will hinge on tailored rulemaking, just as thoughtful regulations following enactment of the Foreign Investment and National Security Act of 2007 (P.L. 110-49) were key in maintaining lawmakers’ support for CFIUS’s activities. We look forward to working with you to ensure that the Department drafts the FIRRMA regulations with similar care.

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<sup>1</sup> GAO-18-249 and GAO-18-494.

The Honorable Steven Mnuchin  
September 12, 2018  
Page 3

Sincerely,



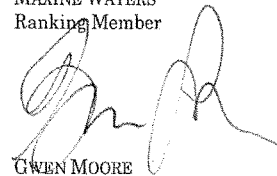
JEB HENSARLING  
Chairman



MAXINE WATERS  
Ranking Member



ANDY BARR  
Chairman  
Subcommittee on  
Monetary Policy and Trade



GWEN MOORE  
Ranking Member  
Subcommittee on  
Monetary Policy and Trade

cc: The Honorable Heath Tarbert, Assistant Secretary for International Markets and  
Investment Policy

Mr. Thomas Feddo, Deputy Assistant Secretary for Investment Security

**House Committee on Financial Services**  
**“The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System”**  
**April 09, 2019 and May 22, 2019**  
**Questions for Secretary Steven Mnuchin**

**Questions for the Record from Rep. Budd**

**Question:**

Mr. Secretary, I do have a couple more final points unrelated to the Federal Insurance Office. First, I commend you and your team for convincing the Financial Stability Board (FSB) and the International Association of Insurance Supervisors (IAIS) that the continued designation of insurance companies as Globally Systemically Important Insurers (GSI) was unnecessary and that they should no longer publicly release a list of designated GSIs. I agree with you that we should not be designating insurance companies as too-big-to-fail at the international (or domestic) level.

While this is a very positive development, there is a second and perhaps more troubling internationally-created category of insurance companies. As we discussed during your testimony before the Committee, the IAIS is developing an Insurance Capital Standard (ICS) that is – technically – supposed to only be applied to a category of insurance companies called Internationally-Active Insurance Groups (IAIGs). The IAIS created the category of IAIGs and the criteria for what constitutes an IAIG (If a company operates in 3 or more countries AND if a company has assets of \$50 billion OR Gross Written Premium of \$10 billion). These criteria are arbitrary and, as we all know, size of the insurer is not a proper measure of riskiness. Also, insurance companies that operate in a greater number of countries and markets typically exhibit greater diversification of risk. This would make IAIGs less risky not more which further questions the appropriateness of using the IAIG definition and intending to apply a new capital standard to that category.

Do you think it is fair to single out specific companies as IAIGs?

**Answer:**

First, it is important to note that international standards issued by the IAIS and other standard-setting bodies are non-binding in the United States, and they will only become law in the United States if adopted by the relevant state or federal authorities. The IAIS established the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) with the goal to help coordinate supervisory activities efficiently and effectively, and share information about IAIGs at the group-wide level and between group-wide and host supervisors. As the IAIS has noted, the concept of proportionality (i.e., that supervisors have the flexibility to tailor their supervision to achieve the intended outcomes) is an important principle underlying ComFrame’s implementation and application.

**Question:**

Do you support subjecting IAIGs to the ICS?

**Answer:**

As Treasury has previously stated, international standards issued by the IAIS and other standard-setting bodies are non-binding in the United States, and they will only become law in the United States if adopted by the relevant state or federal authorities. That said, such standards, if adopted by one or more foreign jurisdictions, could have effects on U.S. insurance companies operating in foreign markets.

Treasury does not support subjecting IAIGs to the ICS in its current form. Treasury has focused its efforts on changes to the IAIS framework that are appropriate for U.S. insurance markets.

**Question:**

Do you agree with designating an insurance company for additional regulations solely because it has more than 50B and is in 3 or more countries?

**Answer:**

Treasury believes that standards adopted by the IAIS should be applied in a proportional fashion based on the risk profile of an insurance company, and that they should be appropriate for the U.S. insurance markets.

**Question:**

Is this a subjective measurement of risk?

**Answer:**

Treasury believes that standards adopted by the IAIS should be applied in a proportional fashion based on the risk profile of an insurance company, and that they should be appropriate for the U.S. insurance sector.

**Question:**

If you share my concerns about the arbitrary nature of the IAIG categorization and the application of new, unproven regulations to these companies, what actions are you taking to eliminate the burdensome and unnecessary IAIG designation or the creation of the ICS?

**Answer:**

In advance of the IAIS meetings next month, Treasury has worked closely with the rest of Team USA — i.e. the U.S. states, the NAIC, and the Federal Reserve Board — to develop a

coordinated position on the ICS. Treasury has focused its efforts on changes to the IAIS framework that are appropriate for U.S. insurance markets.

**Question:**

Given that the current draft of the ICS is expected to be finalized for field testing in November 2019 at the IAIS meeting in Abu Dhabi, what specific steps have you taken during the past negotiations and what steps will you be taking over the next several critical months of future negotiations to ensure that the final version of the ICS either does not contain a consolidated group capital requirement or to ensure the U.S. system of insurance regulation formally is deemed as outcome equivalent (or mutually recognized)?

**Answer:**

Pursuant to section 211(c)(1) of the Economic Growth, Regulatory Relief, and Consumer Protection Act, Pub. L. No. 115-174, 132 Stat. 1296 (the Act), Treasury and the Federal Reserve issued a joint report in September 2019 to Congress on their efforts with respect to global insurance regulatory or supervisory forums. Since that time, Treasury has testified on these issues before the Senate Committee on Banking, Housing, and Urban Affairs, continued to work closely with the other members of Team USA, and engaged with U.S. insurance stakeholders and our international counterparts. Treasury will continue its engagement on these important issues.

**Questions for the Record from Rep. Cleaver**

**Question:**

As I mentioned during our exchange in your appearance before the committee, tariffs have had an adverse impact on my constituents. You noted that a soybean order was pending that may provide relief to farmers. I understand that this was an inaccurate statement, based on an exchange between our staff. I would like for you to correct the record on this point.

Why did you state an order was made that would provide farmers relief when it was not?

**Answer:**

Your question appears to relate to a statement made during my testimony before the Committee on April 9 about a commitment by the Chinese to order U.S. soybeans and related market activity. Consistent with my commitment to you when you followed up on this issue during my appearance before the Committee on May 22, on May 28 the Department sent a letter to you providing additional information about my April 9 statement. As explained in that letter, the Chinese made commitments to purchase a large amount of U.S. soybeans at the Presidential Summit in Buenos Aires late last year and during subsequent trade talks through the first quarter of this year. The Chinese commitments totaled 20 million metric tons (MMT) of new soybean purchases. As of April 4 (when data through March 28 was available), export shipments to China this marketing year were 4.9 MMT, and total export commitments (outstanding sales plus

accumulated exports) reported to the United States Department of Agriculture since the Presidential Summit were 12.9 MMT (including actual shipments). Accordingly, as of early April, these commitments and this market activity appeared to be an increase in the rate of activity by the Chinese as compared to their activity leading into the Presidential Summit.

**Question:**

I mentioned in my opening remarks that a New York Federal Reserve study found that the Trump administration's trade policies and tariffs reduced U.S. income at a rate of \$1.4 billion per month. The report found, "Tariffs were almost completely passed through into U.S. domestic prices, so that the entire incidence of the tariffs fell on domestic consumers."

- a) What is your precise role in decision-making regarding the imposition of trade barriers that include tariffs and sanctions within this administration?
- b) Of the sanctions and tariffs that have been imposed by this administration since the start of your role as Treasury Secretary, how have you in particular and the Treasury Department generally been involved in the decision to impose each tariff measure and sanction?
- c) Have you, or any member of Treasury's leadership or analytical staff, following a review of a measure, ever opposed the imposition of a tariff or sanction measure currently in place by this administration?
  - i) If yes, what was the measure, what was your justification, what process was undertaken for these concerns to be heard and why were they overridden?
  - ii) If no, how precisely did you, members of Treasury's leadership or analytical staff ensure that your views were addressed prior to the imposition of a sanction or tariff measure?
- d) Is there a formal or informal interagency process that involves a mechanism for agencies to dissent with the decision to impose a tariff or sanctions measure?
  - i) If yes, what is that process and what existing measure has an agency opposed, and why did that agency oppose the measure?
  - ii) If no, would you support such a process?
- e) Is there a formal or informal internal process within Treasury that involves a mechanism for areas within the agency to dissent with the decision to impose a tariff or sanctions measure?
  - i) If yes, what is that process and what existing measure has an area in Treasury opposed, and why did that agency oppose the measure, how were concerns heard and addressed?
  - ii) If no, would you support the creation of such a process?
- f) As Treasury Secretary, were you consulted prior to the announcement of each sanction or tariff announced by a member of the administration including the president?
  - i) If yes, what exactly was the level of Treasury consultation—specifically on tweets relayed by the President on tariff and sanction measures—and how was it determined that a tweet was the most effective means of communicating administration policy for those such measures?
  - ii) If no, exactly which sanction or tariff measure were you not aware of and why?
- g) As Treasury Secretary, are you aware of the tariff and sanction measures currently under consideration within the administration?

- i) If yes, what are they and how exactly do you plan to weigh the decision to implement them? (If this information is sensitive it may be transmitted through appropriate means)
- ii) If not, why not?
- h) Did Treasury conduct a comprehensive review of the costs associated with the imposition of the tariffs or sanctions measures imposed by the administration prior to their imposition?
  - i) If yes, please furnish those reviews as well as any subsequent cost benefit analysis. Additionally, a comparison of those findings with the analysis conducted by the Federal Reserve, which determined the cost of tariff measures were transferred to US consumers would be welcomed.
  - ii) If no, why and would you be willing to provide such analysis now?
- i) What communication has there been between you, or any other Treasury official, and the White House or the Department of Commerce regarding any concerns related to existing tariff and sanction policies and/or practices?
- j) Did anyone in the Treasury predict that these tariffs would harm Americans when communicating with the White House?
  - i) If yes, who and what was that communication, when was it communicated and to who was it communicated?
  - ii) If no, what have you done to alter the predictive modeling to better assess the cost of possible economic policy actions?

**Answer:**

This Administration is committed to securing stronger, long-term, free, fair, and reciprocal trade agreements with our international economic partners. Treasury works closely with our colleagues across the Administration on these issues, including monitoring the economic effects of trade negotiations and tools. It would be inappropriate, though, for me to characterize Treasury's conversations with the President and our Executive Branch colleagues or to describe the Executive's deliberative processes, particularly while important trade negotiations are ongoing.

With respect to how the costs of any tariffs are distributed, those costs generally are not fully passed on to the importer or the consumer. Instead, the costs can be offset by a number of factors, including changes in currency exchange rates, reductions in the price paid to the exporter for the goods, or by avoiding the tariff if the goods can be sourced from a supplier in another country that is not subject to the respective tariff. Ultimately, the decision about whether to impose tariffs is made by the President.

It is important to recognize that this Administration is pursuing improved trade agreements at a time when the economic outlook is strong as a result of this Administration's positive economic agenda. For example, the unemployment rate is at its lowest since 1969. American workers are seeing significantly higher real wage growth—which means individual workers have more purchasing power from working because their wages are rising faster than inflation. In fact, recent wage gains have been higher for production and non-supervisory workers than overall wage gains.

Nonetheless, with respect to tariffs and trade negotiations more broadly, the Administration has been sensitive to the concerns of American families and the potential that some costs could be passed on to consumers. As a result, the Administration has established exclusion processes and public notice and comment procedures to allow stakeholders to share their views on the potential impact of tariffs. Through these processes, one of the factors considered for potential exclusions can be the extent to which certain goods cannot be obtained from another country, due to availability, supply-chain issues, and the like.

**Question:**

Have you read the unclassified Worldwide Threat Assessment issued earlier this year by the Director of National Intelligence and do you agree with its principal findings?

**Answer:**

Prior to the release of the Worldwide Threat Assessment (WTA), the Office of the Director of National Intelligence coordinated a robust interagency review of the threats facing U.S. interests. The Treasury Department, through our Office of Intelligence and Analysis, was a full participant in that process. The WTA represents a strategic overview of the threats to U.S. interests and Treasury concurs with the key judgements.

**Question:**

What has your involvement been with the White House on a specific and comprehensive strategy as it relates to the imposition and removal of sanctions on Russia, North Korea, and Iran?

**Answer:**

We are unable to speak to individual programs. However, each potential action that originates from Treasury, State, or another Executive agency goes through an extensive interagency process, which includes the National Security Council and the White House. The guiding force of any action is to ensure that it works toward the specific change in behavior that is the goal of the larger program, which the President sets. Sanctions represent a single aspect of much broader U.S. strategies and objectives for each of these programs.

**Question:**

What is the administration's precise strategy to change the calculus of Russia, North Korea and Iran through sanctions?

**Answer:**

The economic authorities of the Office of Terrorism and Financial Intelligence play an increasingly central role in countering the nation's most critical national security and illicit finance threats. Broadly, the goal of any program is to cause a change in behavior. Before and



after applying economic measures, we assess the expected and actual impact of that action. These impacts may be:

- The disruption of funds going to a national security threat or illicit activity;
- The isolation of an illicit actor from the U.S. and global financial system;
- Direct economic or financial loss to an illicit actor or regime;
- A decreased capability for an adversary to conduct further illicit activity;
- The hardening of our financial system against illicit finance threats;
- An improvement in meeting global standards in high-risk jurisdictions; or
- A fundamental change of behavior.

We maximize these potential impacts by focusing on broader networks where possible, rather than individuals acting alone, thereby blocking a bad actor's ability to access their ill-gotten gains and making it more difficult for them to use the global marketplace or continue in their business arrangements.

**Question:**

As you evaluate the efficacy of existing sanctions, what is your timeline for a change in behavior with respect to sanctioned persons and institutions in Russia, North Korea, and Iran?

**Answer:**

The timeline for a specific change in behavior is unique to each program and each individual or entity sanctioned. On May 8, 2018, the President withdrew from the Joint Comprehensive Plan of Action and U.S. sanctions on Iran snapped back. Since then, we have cut off billions of dollars in revenue that would have otherwise flowed to the world's largest state sponsor of terror. The President fully re-imposed sanctions on the greatest revenue generating sectors of Iran's economy – energy, financial, shipping, precious metals, aviation, and automotive – and we have added more than 1000 individuals, entities, aircrafts, and vessels to our list of Specially Designated Nationals and Blocked Persons (SDN List). An examination of the sanctions we have issued reveals that time and again we are targeting networks that support the Islamic Revolutionary Guard Corps, the Qods Force, and other terrorist organizations. The Iran sanctions have forced Hizballah to make an unprecedented plea for funding to their followers.

In Russia, we expanded sectoral and other sanctions in response to Russia's continued aggression, leading to major western firms abandoning joint exploration ventures with Russian companies and a drop in foreign direct investment. Our actions exposed and disrupted the malign activity of Russian oligarchs, such as Oleg Deripaska, who are closely linked to the Kremlin, forcing them to divest ownership in large corporations and rendering them pariahs to the international business community.

In North Korea, we disrupted shipping, financial, and export networks and worked in concert with our allies and the UN to create a diplomatic opening for discussion.

All of these actions and the resulting changes in behavior have taken place in just the last two years. Determining impact and overall effectiveness is a complex and complicated process that

requires both patience and flexibility. We must be patient because our adversaries are determined in achieving their malign objectives, and sanctions targets adopt mitigation strategies of their own. It may also be that some impacts are cumulative, or only reveal themselves after a longer period of time. We must take care against reading too much into the immediate reactions to a designation and instead focus on the long term effectiveness of our strategies and plans.

**Question:**

If that strategy does not exist, please provide a comprehensive analysis of the process that the Treasury has been a part of in arriving at decisions to implement and remove sanctions?

**Answer:**

Because sanctions are intended to encourage changes in behavior, the effective implementation of sanctions inherently includes processes for the removal of sanctions when changes of behavior or circumstances occur. We must also be flexible because as carefully as we plan, the very nature and global scope of our actions means that there may be unintended impacts that require adjustments to our plans through the use of licensing and waivers to prevent harm to innocent parties or allies. As we ramp up powerful economic pressure to achieve impact, these authorities allow us to fine-tune that pressure as situations develop. We need the ability to quickly adjust our efforts to focus on the most high-value targets.

In the event of widespread behavioral change, such as by the government of a country subject to sanctions, Treasury consults extensively with interagency partners and the White House regarding any proposals to terminate relevant sanctions authorities or provide other forms of sanctions relief, such as through regulatory changes. In consulting on these matters, Treasury works with the interagency to ensure that any termination or relief of sanctions is consistent with relevant statutes and with Administration strategies.

Any person on the SDN List may submit a written request to the Office of Foreign Assets Control (OFAC) asking that their designation be reviewed. OFAC can remove persons who credibly demonstrate that they no longer engage in the activity for which they were designated or that the circumstances resulting in the designation otherwise no longer apply. Persons seeking removal from the SDN List may communicate directly with OFAC in writing via mail or email. While OFAC manages the delisting petition process, OFAC consults with interagency partners regarding the anticipated consequences of delisting certain entities and individuals.

**Question:**

I would be interested in knowing who you have worked with in government when arriving at that strategy as well as any analysis that has been undertaken.

- a) Has any element of the intelligence community ever descanted officially or privately regarding a decision related to sanctions implementation or removal while you have been in office?
  - i) If yes, what was the agency and why?
- b) Have they expressed any concerns or reservations either privately or publicly regarding this administration's sanctions practices?

- i) If yes, what was the agency and why?
- c) Is the intelligence community consulted in all policies related to sanctions?
- i) If yes, which agencies and what is the nature of that consultation?

**Answer:**

The development of the Administration's various strategies is the result of a coordinated interagency process, and Treasury consults with a wide range of interagency partners to ensure that it implements sanctions in accordance with these strategies. When planning to impose sanctions on a particular target or set of targets, Treasury communicates with intelligence and law enforcement partners to ensure that the planned sanctions would not disrupt those partners' equities, consults with the State Department to confirm that the planned sanctions are consistent with U.S. foreign policy, and works internally and with appropriate interagency partners to ensure that the anticipated impact of the sanctions (see answer to the fourth question above) is consistent with the Administration's goals and Treasury's mandate to safeguard the financial system against illicit use and to apply its tools to combat national security threats.

**Question:**

Do you believe an independent U.S. monetary policy system?

- a) If yes, what have you done to communicate those views to members of the administration, including the President? Additionally, how are you working to advance that view?
- b) If no, why not?

**Answer:**

I respect the independence of the Federal Reserve and have said so numerous times publicly. Its independence is something that the world looks to, and the dollar being the reserve currency is very important as well.

**Question:**

What skills do you think are important for a member of the Federal Reserve Board so that they may most ably execute their responsibilities in the event of a financial crisis?

**Answer:**

It is important for the Board to be data oriented and to always be monitoring and reacting to key economic indicators.

**Question:**

Do you think that it is a problem to have political pundits unfamiliar with the responsibilities of the Federal Reserve on the Federal Reserve Board of Governors?

- a) If yes, what have you done to communicate those views to the administration?

b) If no, please explain.

**Answer:**

It is the President's right and obligation to nominate candidates to the Board, and once formally nominated, candidates go through the normal Senate confirmation process.

**Question:**

What role has the Treasury Department played (formally or informally) in the selection, nomination, or vetting of possible Federal Reserve Governors?

**Answer:**

The Department works with other members of the President's economic team to provide advice to the President on these and various other economic issues. As a general matter, it would be inappropriate for me to comment more broadly on the advice the Department provides to the President.

**Question:**

Were you involved in the selection of Stephen Moore or Herman Cain to serve on the Federal Reserve?

- a) If yes, what role did you play, who else was involved in the selection (any and all persons that you are aware of.), what standard did you use in the selection, what vetting mechanism did you undertake?
- b) If no, who exactly was involved (directly or indirectly) in their selection to your knowledge? (Any and all persons involved in the selection process that you are aware of.)

**Answer:**

As a general matter, it would be inappropriate for me to comment on advice that I or others may provide to the President. Ultimately, it is the President's right and obligation to nominate candidates to the Fed Board, and once formally nominated, candidates go through the normal Senate confirmation process.

**Question:**

During your meetings with the Federal Reserve Chairman, has he ever expressed a desire for Stephen Moore or Herman Cain to serve as his colleagues on the Board?

**Answer:**

It would be inappropriate for me to comment on the views of Chairman Powell, including whether or not he shared them with me.

**Question:**

Do you think Stephen Moore and Herman Cain are the best candidates to serve on the Board?

- a) If yes, please explain.
- b) If no, why not?

**Answer:**

It is the President's right and obligation to nominate candidates to the Fed Board, and once formally nominated, candidates go through the normal Senate confirmation process.

**Question:**

You noted in testimony earlier this year that you meet almost weekly with the Federal Reserve Chairman. Where and when have these meetings occurred during your tenure as Treasury Secretary? (A complete log of these meetings would be sufficient in response to this question)

**Answer:**

We endeavor to meet weekly, sometimes at the Treasury Department and other times at the Fed. In an effort to be transparent with the American people, we proactively post my calendars and a travel log on the Treasury Department website at: <https://home.treasury.gov/footer/freedom-of-information-act/electronic-read-room/calendars-and-travel-of-the-secretary>.

**Question:**

Is there any existing record of these meetings?

- a) If yes, will you please furnish any records related to these meetings to the committee?
- b) If no, why?

**Answer:**

See above.

**Question:**

What has been the nature of your conversations with the Federal Reserve Chair?

**Answer:**

We discuss a variety of economic issues, including regulatory, international, and monetary matters. This is consistent with what previous Board Chairs and Treasury Secretaries have done.

**Question:**

What are the guiding principles that you observe with respect to Federal Reserve independence during these meetings?

**Answer:**

In my role as Treasury Secretary, I respect the independence of the Federal Reserve, particularly with respect to interest rate decisions.

**Question:**

Have any of these meetings occurred during the Federal Reserve blackout period?

- a) If yes, have you and the chairman discussed issues related to monetary policy?
- b) If no, what was the subject of these discussion in these instances?

**Answer:**

We endeavor to meet weekly, sometimes at the Treasury Department and other times at the Fed. In an effort to be transparent with the American people, we proactively post my calendars and a travel log on the Treasury Department website at: <https://home.treasury.gov/footer/freedom-of-information-act/electronic-read-room/calendars-and-travel-of-the-secretary>.

**Question:**

Have you relayed any communications that have occurred in these meetings to any White House official?

- a) If yes, what was communicated and to whom?

**Answer:**

It would be inappropriate for me to comment on any such private and deliberative conversations, including whether or not they took place.

**Question:**

Was the possible nomination of Federal Reserve Board members discussed in any of these meetings?

- a) If yes, what was the nature of these discussions?
- b) If no, would Chairman Powell share be able to confirm this?

**Answer:**

It would be inappropriate for me to comment on any such private and deliberative conversations, including whether or not they took place.

**Question:**

Was the nomination of Stephen Moore ever discussed?

- a) If yes, what was the nature of that discussion?
- b) If no, why did you choose not to discuss this with Chairman Powell during one of these meetings?
- c) If no, why not and would you be willing to change that practice?

**Answer:**

It would be inappropriate for me to comment on any such private and deliberative conversations, including whether or not they took place.

**Questions for the Record from Rep. Garcia**

**Question:**

Tens of millions of Americans rent their homes, and Fannie Mae/Freddie Mac finance approximately half of the rental market, yet Fannie and Freddie have no rules that protect tenants in the rental housing market. Fannie and Freddie have begun to contemplate some tenant protections for mobile home tenants by giving landlords who promise to give renters a 'grace period' on late rents cheaper loans. Why don't Fannie and Freddie extend these new consumer protections to mobile home residents to landlords who borrow across the rental home market?

**Answer:**

Fannie Mae and Freddie Mac (each, a "GSE") perform a role in supporting multifamily housing needs, especially for low-income households. The Federal Housing Finance Agency ("FHFA") regulates and supervises the GSEs, and since September 6, 2008, each GSE has been under conservatorship with FHFA acting as conservator. As conservator, FHFA succeeded to all rights, titles, powers, and privileges of each GSE, and of any shareholder, officer, or director of each GSE with respect to the GSE and its assets. One of FHFA's strategic goals for the conservatorships is for the GSEs to maintain a multifamily liquidity presence in all geographic areas with a focus on the affordable segment of the market. FHFA's affordability focus includes multifamily lending for manufactured housing rental communities. As regulator and conservator, FHFA in the first instance prescribes the requirements and restrictions on a GSE's multifamily activities, including with respect to any consumer protections.

**Questions for the Record from Rep. Gonzalez**

**Question:**

What steps is Treasury currently taking to stop the flow of resources to Hezbollah? In particular, what are we doing to stop Iranian resources from going to Hezbollah?

**Answer:**

Treasury prioritizes targeting Hizballah and its supporters, including operational and political leadership, operatives, facilitators, financiers, investors, and key global procurement networks. Treasury has designated more than 150 Hizballah-related persons pursuant to our counterterrorism authorities. In 2018 alone, Treasury designated more than 40 Hizballah-related persons, more than any previous year, and we continue to pursue and will take more impactful measures.

We continue to maintain this pressure and aggressively work to identify and sanction individuals and entities that provide support to Hizballah in our ongoing effort to maintain the integrity of the international and Lebanese financial systems. We engage both internal and external to Lebanon, highlighting the importance of compliance regimes to the Lebanese Central Bank while also continuing to work with international partners to implement their own sanctions regimes and asset freezes to maximize pressure against Hizballah and Iran.

Treasury's actions are designed to disrupt the Iranian regime's ability to fund its broad range of malign activities by putting maximum economic pressure on the Iranian regime, including its financial support to proxies, like Hizballah and HAMAS, and its development of nuclear weapons and ballistic missiles.

In November 2018, Treasury designated Mohammad Amer Alchwiki and his Russian-based company, Global Vision Group, who were central to the transfer of funds to the Iranian Revolutionary Guard Corps – Qods Force's proxy organizations including Hizballah and HAMAS. Most recently, on April 24, 2019, Treasury designated Wael Bazzi and Hassan Tabaja for their work helping major Hizballah financiers Mohammad Bazzi and Adham Tabaja evade sanctions. These designations further dismantled two of Hizballah's key financial networks and their European-based companies. To heighten the pressure against these designated Hizballah financiers, Treasury worked with the State Department to release the April 22, 2019 announcement of a Rewards for Justice (RFJ) offer for information leading to the disruption of Hizballah's financial mechanisms. Treasury anticipates information from this RFJ will be extremely beneficial towards building further actions against the group; tips have already begun to flow in. The 2019 actions build on the unprecedented number of designations taken in 2018 exposing Hizballah's terrorist support networks and pervasive use of seemingly legitimate businesses to launder money and foment regional conflict.

To continue bolstering international efforts to constrain Iran and its proxies like Hizballah and HAMAS, Treasury senior officials have visited over 30 countries to highlight Iran's malign activities, explain our economic pressure campaign, and urge them to match our actions. Several countries in South America have opened investigations and brought charges against suspected Hizballah-linked individuals, and Treasury looks forward to the conclusion of these cases. Treasury consistently urges our European partners in particular to abandon the false distinction between Hizballah's "military" and "political" wings, and designate the whole organization as a terrorist group. The UK's February 25, 2019 designation of the entirety of Hizballah as a terrorist organization was a welcome step. During these engagements we also deliver 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.



Hizballah is feeling the financial pressure, especially when coupled with the financial challenges of its main benefactor, Iran. There is no better way to identify the detrimental impact of U.S. actions against Hizballah than through the words of Hassan Nasrallah himself. In March, Nasrallah publicly acknowledged that Hizballah was under financial strain as a result of the U.S. “financial war” and appealed to supporters for donations to help combat the effect of sanctions.

**Question:**

Last year, Congress passed the Hizballah International Financing Prevention Amendments Act of 2018 to increase our ability to target Hezbollah’s global financing and reach. What steps has Treasury taken to implement this new legislation?

**Answer:**

Treasury uses a variety of legal authorities to pressure Hizballah’s finances, including the Hizballah International Financing Prevention Amendments Act of 2018 (HIFPAA). For example, in April 2019, Treasury identified Kassem Chams and the Chams Money Laundering Organization as an affiliated network of Hizballah in accordance with HIFPAA, and designated both as Specially Designated Narcotics Traffickers pursuant to the Foreign Narcotics Kingpin Designation Act. Treasury sees HIFPAA as a powerful new tool to increase our pressure on Hizballah’s financial support networks and we will not hesitate to use this tool where appropriate.

**Question:**

What steps has Treasury taken to begin enforcement of the Sanctioning the Use of Civilians as Defenseless Shields Act?

**Answer:**

Treasury has a variety of legal authorities to pressure Hizballah and HAMAS’ finances, including the Sanctioning the Use of Civilians as Defenseless Shields Act of 2018. In April, the President delegated specific authorities from this act to the Departments of State and Treasury, which was the first step in beginning implementation. Treasury will continue use all available legal authorities, including this act, where possible and as appropriate to apply maximum pressure in targeting these actors.

Treasury prioritizes targeting Hizballah and HAMAS and their supporters, including operational and political leadership, operatives, facilitators, financiers, investors, and key global procurement networks. Treasury has designated more than 150 Hizballah-related persons pursuant to our counterterrorism authorities. In 2018 alone, Treasury designated more than 40 Hizballah-related persons. For example, in November 2018, Treasury’s designation of Mohammad Amer Alchwiki directly targeted a major financial supporter of both Hizballah and HAMAS.

We will continue to maintain pressure on both organizations and aggressively work to identify and sanction individuals and entities that provide support to Hizballah and HAMAS in our ongoing effort to maintain the integrity of the international financial system.

**Questions for the Record from Rep. Green**

**Question:**

At the full Committee hearing on April 9, 2019 (“Hearing”), you testified that “The entity of Ratpac-Dune had a transaction with Warner Brothers, Warner Brothers bought it out, and that entity is fully liquidated.” When did the referenced transaction occur and who were the parties to that transaction?

**Answer:**

According to publicly available information, the transaction occurred on or around January 2, 2019 and involved Warner Brothers and RatPac-Dune.

**Question:**

Is there a distinction between the “entity of Ratpac-Dune” that you referenced in your Hearing testimony and “Ratpac-Dune Entertainment Holdings LLC” named in your January 10, 2017 letter to the Treasury Department’s designated agency ethics official? If so, fully explain each entity, the distinction, and the relationship between those entities.

**Answer:**

No.

**Question:**

At the Hearing, in response to questioning by Mr. Green, you testified that you are very familiar with Ratpac-Dune (“RPD”) and that you sold your interest in it “a long time ago.” In fact, you made that sale as Treasury Secretary less than two years ago and as a condition of becoming Secretary pursuant to the requirements of your ethics agreement dated January 10, 2017, correct?

- a. Are you legally precluded by the terms of that sale or by any other agreement from disclosing the buyer’s identity?
- b. If so, why did you agree to that obligation?
- c. Is there a distinction between RPD, with which you are “very familiar,” and “Ratpac-Dune Entertainment Holdings LLC” named in your January 10, 2017 letter to the Treasury Department’s designated agency ethics official? If so, fully explain each entity, the distinction, and the relationship between those entities.

**Answer:**

As stated in response to your first question, RatPac Dune and RatPac Dune Entertainment Holdings LLC are the same entity. I was fully divested of my interest in RatPac Dune by March 31, 2017 in compliance with my January 10, 2017 ethics agreement. Although the terms of the transaction about which you asked are confidential, the transaction was approved by ethics officials at the Department, whom I regularly meet with to ensure that my actions as Treasury Secretary continue to comply with federal ethics rules.

**Question:**

At the Hearing, in response to questioning by Chairwoman Waters, you refused to name the buyer of your interest in Ratpac-Dune Entertainment ("RPDE"), stating only that the sale was effected through a secret deal. Explain the apparent contradiction with your testimony that Warner Brothers bought Ratpac-Dune.

**Answer:**

There is no contradiction. As publicly reported, the referenced transaction involving Warner Brothers occurred nearly two years after I sold my interest in RatPac-Dune.

**Question:**

Is there a distinction between RPDE and "Ratpac-Dune Entertainment Holdings LLC" named in your January 10, 2017 letter to the Treasury Department's designated agency ethics official? If so, fully explain each entity, the distinction, and the relationship between those entities.

**Answer:**

See above.

**Question:**

Is there a distinction among RPD, RPDE, and "Ratpac-Dune Entertainment Holdings LLC" named in your January 10, 2017 letter to the Treasury Department's designated agency ethics official? If so, fully explain each entity, the distinctions, and the relationship among those entities.

**Answer:**

See above.

**Question:**

Is it appropriate to recuse yourself from Treasury Department decisions in which your former business partner(s) or co-investors have a financial interest? If not, why not?

**Answer:**

As stated previously on numerous occasions, I and the Department take very seriously our obligations to comply with federal ethics rules, including those pertaining to conflicts of interest. I regularly meet with Department ethics attorneys to ensure that I continue to be in compliance with the applicable ethics rules and that I recuse myself from a matter if appropriate.

**Question:**

Given your previous business ties to Len Blavatnik, including most recently as co-owners of Ratpac-Dune Entertainment, do you believe it is appropriate to recuse yourself from Treasury Department decisions in which he has a direct or indirect financial interest? If not, why not?

**Answer:**

Your question misconstrues my relationship with Mr. Blavatnik. As publicly available information shows, we were not co-owners of RatPac Dune. His reported connection to RatPac Dune occurred in mid-April 2017—after the March 31, 2017 effective date of my divestiture of my stake in RatPac Dune. Since then, I have been fully divested from RatPac Dune and had no involvement in any transaction that may have afforded Mr. Blavatnik a direct or indirect interest in RatPac Dune. Although I know Mr. Blavatnik socially, I have never had any business relationship with him.

**Question:**

Did you consider recusing yourself from the decision to delist certain sanctioned Russian entities, including ones owned by Oleg Deripaska?

- a. If so, what factors did you consider, to whom did you communicate as part of those considerations and when, and why did you ultimately deem it appropriate to not recuse yourself?
- b. If not, why not, particularly given Blavatnik's financial ties to sanctioned persons, including Deripaska and Viktor Vekselberg, as well as the obligation you accepted, by April 3, 2019 letter to Treasury's DAEO, to recuse yourself from decisions in which your co-investors and others close to you have a financial interest?

**Answer:**

Based on publicly available information, the facts relevant to your questions appear to be as follows: In mid-April 2017, a company owned by Mr. Blavatnik, Access Industries, acquired an interest in a motion picture production and financing company, RatPac Entertainment, which in turn owned a minority stake in RatPac-Dune. I was not a party to that transaction and have never held any interest in RatPac Entertainment. Access Industries' website and various news reports all reflect that Access Industries bought its interest in RatPac Entertainment from James Packer. Moreover, as indicated above, this reported investment in RatPac Entertainment was announced after the March 31 effective date of my divestiture of my stake in RatPac-Dune, shortly before that transaction closed. Since the closure of that transaction, I have been fully divested from RatPac-Dune. Again, I have never had any business relationship with Mr. Blavatnik; and neither he, nor his agent, nor any sanctioned individual contacted me in connection with the decision to

delist certain companies previously majority-owned by Russian oligarch Oleg Deripaska. Accordingly, no conflict of interest or basis to consider recusal exists.

**Questions for the Record from Rep. Kustoff**

**Question:**

Secretary Mnuchin, as you know the Tax Cuts and Jobs Act included a provision called the Base Erosion and Anti-Abuse Tax - commonly referred to as BEAT. While the provision has a strong underlying policy, it has the ability to negatively impact foreign banking organization (FBOs) operating in the United States due to a misalignment between tax policy and US financial regulatory requirements. This runs counter to Treasury's previously articulated position recognizing the importance of FBOs to the US financial system.

In December, Treasury proposed a rule implementing the BEAT provision. It recognized one major US regulatory requirement, Total Loss Absorbing Capacity, and provided appropriate relief from the BEAT. However, the proposed rule does not recognize and provide appropriate relief for other US regulatory capital and liquidity requirements. I would like to better understand how Treasury approaches the intersection of tax policy and US financial regulatory policy. Specifically:

- a) How does Treasury intend to minimize the negative effects of the application of tax provisions on existing U.S. financial regulatory requirements?
- b) Is it appropriate for foreign banking organizations to be taxed due to a regulatorily required capital and liquidity structure?
- c) What steps is Treasury taking to ensure the alignment of US tax policy and US financial regulatory requirements?

**Answer:**

Section 59A generally applies to any statutorily defined base erosion payment. The statute generally defines a base erosion payment as any deductible payments from a U.S. corporate taxpayer to a foreign related party (along with certain depreciation and amortization deductions and certain payments in connection with reinsurance transactions and inversions). The only exceptions in the statute are for deductible payments subject to U.S. withholding tax, certain payments for low value services, and certain derivative payments, and certain low-value base erosion payments. Consequentially, interest paid by a domestic bank to a foreign related party is within the statutory definition of a base erosion payment and therefore subject to the BEAT. On December 21, 2018, the Treasury Department and the IRS published proposed BEAT regulations under section 59A of the Code. With respect to foreign-parented banks, the proposed BEAT regulations include a regulatory exception for interest paid to a foreign related party with respect to total loss-absorbing capacity ("TLAC") securities that are mandated by the Board of Governors of the Federal Reserve. The Treasury Department received numerous comments in response to the proposed BEAT regulations. Comments from foreign-parented banks that have recommending expanding the regulatory exception for Federal Reserve mandated TLAC securities to other debt instruments, including TLAC interest issued by foreign banks is allocated

to a U.S. branch of the foreign bank (foreign TLAC). Comments also recommended other regulatory exceptions for interest on other bank capital that is required by regulators.

**Questions for the Record from Rep. Lucas**

**Question:**

According to a recent International Swaps Dealers Association survey of large dealers, over \$39.4 billion in initial margin is being held and segregated for inter-affiliate trades covered by U.S. prudential regulators' margin rules. That is a large sum of money that is diverted from economic growth and maintaining U.S. global competitiveness. And the prudential regulators are alone in treating these transactions this way. European, Asian, and CFTC margin rules provide exemptions for posting initial margin for inter-affiliate transactions. The Treasury has acknowledged this unequal treatment, and called in its 2017 Capital Markets Report for providing this inter-affiliate initial margin exemption "in a manner consistent with the margin requirements of the CFTC and the corresponding non-U.S. requirements."

Given the Treasury Report's recommendation and your role as the chair of the Financial Stability Oversight Council, is this a priority for you?

**Answer:**

Treasury has recommended that U.S. regulators take steps to harmonize their margin requirements for uncleared swaps domestically and cooperate with non-U.S. jurisdictions that have implemented the international framework to promote a level playing field for U.S. firms. One area in need of harmonization is the margin treatment of interaffiliate transactions. Many banks and other companies use swaps transactions between affiliates as a means to centralize their company-wide risk management activities. The U.S. banking regulators diverged from the international framework and CFTC rules and imposed initial margin requirements for interaffiliate transactions of prudentially regulated swap dealers, a difference that puts U.S. bank swap dealers at a disadvantage to both domestic and non-U.S. competitors. Treasury continues to recommend that the U.S. banking agencies consider providing an exemption from the initial margin requirements for uncleared swaps for transactions between affiliates of a bank or bank holding company.

**Question:**

Will you convene U.S. prudential regulators to prioritize drafting an exemption in line with the Treasury Report's recommendation?

**Answer:**

As noted above, Treasury has encouraged the U.S. banking agencies to take steps to address the interaffiliate margin issue. Treasury continues to monitor progress and discuss the matter with the U.S. regulators as appropriate.

**Questions for the Record from Rep. Posey**

**Question:**

Mr. Secretary, what is the status of rulemaking to implement our CFIUS reforms?

**Answer:**

Treasury's Office of Investment Security is fully engaged with other Committee on Foreign Investment in the United States (CFIUS) member agencies in the rulemaking process necessary to implement Foreign Investment Risk Review Modernization Act (FIRRMA). CFIUS has made substantial progress on the implementation of FIRRMA. In October 2018, CFIUS promulgated regulations to implement, and make updates consistent with, certain provisions of FIRRMA that were immediately effective. In November 2018, CFIUS through regulations commenced a tailored pilot program related to non-controlling, non-passive foreign investments in certain U.S. businesses with critical technologies, and simultaneously initiated the use of FIRRMA's declaration process, including the issuance of a standardized five-page "short form" for the more efficient electronic submission of the declarations. In September 2019, Treasury issued proposed regulations to comprehensively implement FIRRMA and to better address national security concerns arising from certain foreign investments and real estate transactions. The comment period for the proposed regulations is open through October 17, 2019. As required by FIRRMA, a final version of the rule will take effect no later than February 13, 2020.

Post-FIRRMA, Treasury reorganized the Office of Investment Security into functional offices to execute the various mandates of the statute, including with respect to policy making and regulations writing, increased engagement with allies and partners, and enhanced mitigation monitoring and enforcement efforts. Since August 2018, CFIUS has timely submitted reports required by FIRRMA and conducted related briefings with Committee staff. Treasury is using additional resources appropriated in FY2019, as well as FIRRMA's special hiring authority, to ensure that the Office of Investment Security is appropriately staffed to carry out new CFIUS authorities; this includes nearly tripling the Office's personnel to date and commencing development of an end-to-end information technology infrastructure to support additional caseloads and related work streams. CFIUS member agencies are making similar resource upgrades and improvements to support the CFIUS mission.

**Question:**

Last Congress, I was fortunate enough to get enacted a provision for the IRS to create a simplified version of the 1040 form, known as the 1040SR, for retired persons. This new requirement seeks to make tax filing simplification available to our seniors and will make simple filing available to those on social security.

Can you please tell me the status of implementing this new form, the 1040SR?

**Answer:**

The draft 1040-SR is now available on IRS.gov and the public may view and provide feedback. The form will be available in final form for the 2019 tax year.

**Question:**

At a hearing tomorrow, this committee will reopen the inquiry into big banks or so-called G-SIBs. After the financial crisis, the phrase “too big to fail” is etched into our minds. I understand the notions of a firm being large enough that allowing it to fail might threaten the stability of the entire financial system. But I wonder if we may be a little confused about the role of bank size as a cause of the last crisis. It seems that lending practices in the mortgage sector and securitization of those mortgages infected the entire financial system and that once the housing market turned, just about all financial institutions regardless of size were affected.

- a) If we’d had 200 financial firms in place of the 10 to 15 large banks we often talk about, and they had all been similarly affected by the crisis, would that have made a difference?
- b) Everyone was already in the same kind of trouble. How often has bank size been a cause of financial system collapse?

**Answer:**

Treasury recognizes that risks to the financial system can originate from a variety of sources, including bank and non-bank firms of various sizes and business models. Financial institutions of varying sizes failed during past financial crises, including the recent global financial crisis and the U.S. Savings and Loan crisis from several decades ago. Addressing potential risks to our financial system requires a regulatory approach that is designed to appropriately match the nature of the risks presented by a wide array of firms or specific risky activities, including the risk of repeating the taxpayer-funded bailouts that occurred in the most recent financial crisis.

The taxpayer-funded bailouts that occurred during the financial crisis were not only unfair to taxpayers, but also created moral hazard risk in U.S. financial markets by signaling to market participants that certain investors will not bear the consequences of their actions. Accordingly, Treasury has supported efforts to: strengthen resolution regimes to resolve the largest and most complex financial institutions; further tailor regulations to reduce the degree to which regulations might cement the market position of larger firms in our financial system; and apply robust prudential standards – including simple, transparent, and strong capital requirements for the banking system – to protect the safety and soundness of the financial system and to facilitate economic growth.

Specifically, in its February 2018 report on Orderly Liquidation Authority (OLA) and Bankruptcy Reform, Treasury recommended a series of proposed reforms aimed at improving the resolvability of financial companies under bankruptcy and to improve taxpayer protections under OLA. In addition, in its June 2017 report on Banks and Credit Unions, Treasury recommended changes to improve the tailoring of regulations in our financial system while also advocating for the retention of key post-crisis reforms that have enhanced the resiliency of our financial system.

**Question:**



The Washington Post published an article on Sunday that appears to find some alarm in the size of so-called leveraged loans. Perhaps you can shed some light for us. The Washington Post wants to draw parallels between the expansion of these loans and associated securitization with the subprime mortgage crisis of 2008-2009. Other articles on this topic point out that unlike the mortgage crisis, leveraged loans are more widespread across economic sectors and less likely to go bad. At the same time, the size of the leveraged mortgage market is about one-tenth the size of what mortgages were ten years ago and markets for collateralized debt appear to adjust better to changes in risk.

Mr. Secretary, can you assess the systemic risk of leveraged loans?

**Answer:**

Treasury and the federal financial regulatory agencies are engaged in analysis and coordination, including through the Financial Stability Oversight Council (FSOC), regarding potential risks related to nonfinancial corporate credit and leveraged lending.

As a result of its ongoing monitoring efforts, the Council's 2018 annual report includes detailed data regarding trends in the ratios of corporate debt to GDP, debt to assets, and debt to earnings; the growth in corporate loans and bonds; and underwriting standards. A number of these metrics suggest that, after a prolonged period of growth, nonfinancial business leverage is at the upper end of historical ranges. However, strong interest coverage and liquidity positions have allowed businesses to service this debt with low delinquency rates, and the U.S. economy continues to experience strong growth.

As discussed in the Council's 2018 annual report, if the U.S. economy were to experience a recession, delinquency rates would be expected to increase. Any impact on financial stability would depend on the extent and severity of these defaults, whether there were spillovers to other markets, and the ability of investors and intermediaries to manage losses.

The U.S. financial system is clearly stronger and much better positioned to withstand a shock or an economic downturn than it was before the financial crisis. Nonetheless, we will remain vigilant regarding potential emerging threats.

**Question:**

How much should we be worrying about them?

**Answer:**

As noted above, any impact on financial stability related to a potential future increase in delinquency rates on leveraged loans would depend on the extent and severity of the defaults, whether there were spillovers to other markets, and the ability of investors and intermediaries to manage losses. The Council and its member agencies will continue to monitor the leveraged lending market and will take action as appropriate.

**Questions for the Record from Rep. Stivers****Question:**

I am a Brigadier General and know how important an effective CFIUS is in preserving our military's edge. But our military's strength also depends on the underlying economy, which benefits from the free flow of cross-border capital that American businesses rely on to grow.

As you will remember, one of the goals of the CFIUS reform law was to strike a balance that shuts down the back doors used by China to access and steal sensitive technologies, while also ensuring that American businesses are not closed off from truly passive foreign investments.

I have heard from private equity and venture capital firms that are closely monitoring the upcoming rulemaking that will define 'foreign entity' investments. In my view, an investment fund that is controlled by a US firm should be excluded from the definition of "foreign entity".

As you work on defining this term, will you work with my staff to ensure the final rule preserves Congress's intent by ensuring that investment funds controlled by US persons will not be considered a foreign entity for CFIUS purposes?

**Answer:**

I agree that a fund that is organized and headquartered in the United States and is not controlled by a foreign person (as that term is defined in 31 C.F.R. § 800.216) should not be treated as a foreign person.

On September 17, 2019, the Department of the Treasury issued proposed regulations to implement changes that FIRRMA made to CFIUS's jurisdiction and processes. Comments on the proposed regulations will inform the development of the final regulations to implement FIRRMA. FIRRMA requires that final regulations become effective no later than February 13, 2020.

Since FIRRMA's enactment, my staff has met and will continue to meet with various industry stakeholders, including from the private equity and venture capital communities, regarding this issue among others. My staff and I look forward to the opportunity to work with you and your staff on this issue.

**Questions for the Record from Rep. Wagner****Question:**

Mr. Secretary, as you know, the Burmese military is complicit in genocide and ongoing atrocities against ethnic groups across the country, including the Rohingya, Shan, and Kachin. In 2013, the World Bank and IFC began aggressively engaging with Burma. The IFC's lending proposals in luxury development projects, infrastructure, tourism, and agribusiness in a country with a corrupt

business environment and no property rights raised concerns among Burmese civil society organizations. At one point in 2014, nearly half of the IFC's loan portfolio may have been invested in companies ultimately controlled by Serge Pun, a businessman with ties to the military.

How has the IFC used its position to promote transparency, reform, and more inclusive economic development in Burma's highly corrupt business environment? Has the IFC diversified away from entities closely linked to the military?

**Answer:**

Treasury understands the importance of requiring the International Financial Institutions (IFIs) to work with reputable partners in their countries. Treasury encourages all Multilateral Development Banks (MDBs) to avoid working with military entities and state-owned enterprises and highlights the reputational and integrity risks that may be associated with those entities. The IFC conducts integrity due diligence on all potential projects and the owners of the companies with which it works. This includes screening all clients against various enforcement lists. IFC's investments in Burma are in various sectors that aim to create jobs and stimulate economic activity, while recognizing that the operating environment in the country is challenging. The IFC is looking for reputable, reliable partners with which to work. The IFC strives to use its influence in projects to introduce best practice activities to promote transparency, good corporate governance, and inclusive development, and we do believe that over time, IFC's influence is positive and should lead to reduced corruption. When projects come to the Board for approval, the Treasury Department reviews the names of all known actors in projects in Burma, working closely with the State Department and Treasury's Office of Terrorism and Financial Intelligence to assess the individuals and companies with which the IFC works against our relevant lists, including the Treasury's Specially Designated Nationals and Blocked Persons (SDN) list.

**Question:**

Despite evidence to the contrary, the Obama Administration believed that Burma's government was on the path to reform. It lifted sanctions and embraced IFI engagement. Given that Burma's regime has not moved toward greater democracy or protections of fundamental human rights, do you think IFIs should continue engaging with the country? If so, how can they help prompt a more rights-respecting environment?

**Answer:**

In 2018, Burma was included on the "Tier 3" list of countries considered to not be taking adequate steps to address human trafficking. No Presidential waiver was granted for IFI lending, so as a result, the United States will vote against any assistance to Burma for projects that benefit the government (with a few exceptions as allowed under the Presidential Determination). The IFIs are concerned about the lack of progress towards providing adequate protections of human rights in Burma, and this concern has intensified after the Rohingya crisis. Given the lack of progress and given that human rights conditions in Burma have worsened, the IFIs have been judicious and careful in determining how to engage in the country. The World Bank, for

example, has determined that it should remain cautiously engaged, with a greater focus on social inclusion to help support the poorest and advance needed reforms. To this end, the World Bank's International Development Association (IDA) has not made a sovereign loan to Burma since 2017. The World Bank is focusing on peace and security issues and sought high impact projects that are inclusive of all ethnicities and religions. The World Bank has identified projects in the areas of job creation, maternal health, education, and peace and reconciliation. As it has sought to identify sectors where it can have meaningful impact on the broadest set of individuals, the World Bank has tried to identify reformers and individuals in the government who support inclusivity and equal rights. The World Bank has indicated that they will not move forward with projects in Rakhine state if the project could not be implemented in a way that ensures safety and inclusion. The IMF does not have a lending program with Burma, but continues regular economic surveillance in the country as part of its "Article IV Consultation," which is an annual update of economic conditions that the IMF does in every member country.

**Question:**

The World Bank proposed the Telecommunications Sector Reform Project with Burma's Ministry of Communications and Information Technology in 2013. At the time, Burmese civil society organizations expressed concern about the lack of privacy safeguards and the risk of illegal surveillance. Burma's historic and continued state censorship, and failure to protect freedoms of expression, speech, and assembly, mean that developing the telecom sector comes with great risk of enabling government censorship and rights violations such as internet filtering or shutdowns.

Has the United States pressed the World Bank to conduct full assessments of how the Burmese government could use telecom infrastructure against their citizens? Has the Burmese government enacted necessary legal reforms as a result of this project, and is the Treasury Department working with the World Bank and U.S. entities to provide technical assistance to Burma's government in this area?

**Answer:**

Telecommunications infrastructure is critical for the economic development of low-income countries, and the World Bank identified infrastructure and "lack of connectivity" as key constraints to reducing poverty and achieving shared prosperity. Since 2013, there have been major improvements in the quality, availability, and affordability of telecom services in Burma. This stems from increased investments in the sector, as well as greater private sector investment and enacting necessary legal reforms, including the establishment of an independent regulator. With the issuance of new licenses, the market structure has changed from a monopoly to a multi-operator environment. In addition, the World Bank has provided technical assistance to help with laws covering privacy and data protection. Mobil phone penetration has gone from 13.2 percent in 2013 to 104 percent in end-2018. Still, rural/low-income urban areas are underserved. We understand that telecommunications infrastructure still can be used by the host government for surveillance and we will continue to have a conversation on this topic with the MDBs in a variety of contexts.

**Question:**

Last year, my colleagues and I on the House Foreign Affairs Committee passed legislation to oppose international reconstruction funds from supporting projects in Syria in areas controlled by the Assad regime. How will the U.S. ensure that IFIs and partner economies don't engage in rebuilding projects under Assad?

**Answer:**

We remain vigorously opposed to providing financial resources to the Assad regime, as do our key partners. The World Bank last financed a project in Syria in 1986 and there is no consideration of new financing. Syria is in protracted arrears to the World Bank, further limiting the scope for the Bank to provide new assistance. Instead, the Bank is working with other organizations and donors to address the needs of Syrian refugees and host communities in neighboring countries and using remote technology to analyze damages and assess the reconstruction needs that would be needed if there were a peace agreement. (The World Bank is the only multilateral development bank in which Syria is a member.) The IMF does not have a lending program with Syria, and has not been able to conduct its regular economic surveillance missions for the past decade.

**Question:**

Last year, Congress passed the Sanctioning the Use of Civilians as Defenseless Shields Act. The law empowers the administration to target members of Hamas and Hezbollah that engage in the use of human shields, as well as foreign actors that support them in this practice. What steps has Treasury taken to begin enforcement of the Sanctioning the Use of Civilians as Defenseless Shields Act?

**Answer:**

Treasury has a variety of legal authorities to pressure Hizballah and HAMAS' finances, including the Sanctioning the Use of Civilians as Defenseless Shields Act of 2018. In April the President delegated specific authorities from this act to the Departments of State and Treasury, which was the first step in beginning implementation. Treasury will continue use all available legal authorities, including this act, where possible and as appropriate to apply maximum pressure in targeting these actors.

Treasury prioritizes targeting Hizballah and HAMAS and their supporters, including operational and political leadership, operatives, facilitators, financiers, investors, and key global procurement networks. Treasury has designated more than 150 Hizballah-related persons pursuant to our counterterrorism authorities. In 2018 alone, Treasury designated more than 40 Hizballah-related persons. For example, in November 2018, Treasury's designation of Mohammad Amer Alchwiki directly targeted a major financial supporter of both Hizballah and HAMAS.

We will continue to maintain pressure on both organizations and aggressively work to identify and sanction individuals and entities that provide support to Hizballah and HAMAS in our ongoing effort to maintain the integrity of the international financial system.

**Questions for the Record from Chairwoman Waters**

**Question:**

The Financial Crisis Inquiry Commission found that decades of deregulation paved the path to the global financial crisis of 2007-2009. Specifically, they found, “More than 30 years of deregulation and reliance on self-regulation by financial institutions, championed by former Federal Reserve chairman Alan Greenspan and others, supported by successive administrations and Congresses, and actively pushed by the powerful financial industry at every turn, had stripped away key safeguards, which could have helped avoid catastrophe. This approach had opened up gaps in oversight of critical areas with trillions of dollars at risk, such as the shadow banking system and over-the-counter derivatives markets. In addition, the government permitted financial firms to pick their preferred regulators in what became a race to the weakest supervisor.”<sup>1</sup> Do you agree with this finding about the last crisis, and if so, how does it inform your view on pushing for deregulation of the financial system?

**Answer:**

My focus as the Secretary of the Treasury has been on improving the regulation of the U.S. financial system in a manner consistent with the following core principles, as set forth in Executive Order 13722:

- a) Empower Americans to make independent financial decisions and informed choices in the marketplace, save for retirement, and build individual wealth;
- b) Prevent taxpayer-funded bailouts;
- c) Foster economic growth and vibrant financial markets through more rigorous regulatory impact analysis that addresses systemic risk and market failures, such as moral hazard and information asymmetry;
- d) Enable American companies to be competitive with foreign firms in domestic and foreign markets;
- e) Advance American interests in international financial regulatory negotiations and meetings;
- f) Make regulation efficient, effective, and appropriately tailored; and
- g) Restore public accountability within Federal financial regulatory agencies and rationalize the Federal financial regulatory framework.

Balanced regulation is important to advance important goals like economic growth, innovation, and opportunity. The U.S. financial system is clearly stronger and much better positioned to withstand a shock or economic downturn than it was before the financial crisis, and Treasury will continue to look for opportunities to ensure that we have an effective and efficient regulatory system.

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<sup>1</sup> Financial Crisis Inquiry Commission, “Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States,” (Jan. 2011) page xviii, available at: <http://fcic.law.stanford.edu/report>.

**Question:**

The Department of the Treasury has issued a series of reports making numerous recommendations relating to financial regulation, specifically to deregulate the financial sector in a myriad of ways. Many of these recommendations are ones that the financial regulators are able to implement on their own. Please identify how many and a list of which of Treasury's recommendations have either been implemented or proposed to be implemented by financial regulators.

**Answer:**

On February 3, 2017, President Trump issued Executive Order 13772. It set forth Core Principles for regulating the U.S. financial system and directed the Treasury to identify statutes and regulations that inhibit the activities of markets and financial institutions according to these Core Principles. Our first report was released in June 2017 and covered the depository system – banks and credit unions. Our second report was released in October 2017 and covered capital markets regulation, including the important topic of derivatives and central clearing. Our third report, released in October 2017, covered the asset management and insurance industries, and retail and institutional investment products. We released our final report on nonbank financials, fintech, and innovation in July 2018.

Under the direction of two separate Presidential Memoranda, we also released reports on two other important policy topics. One concerned the designation policies of the FSOC and was released in November 2018. This report provides valuable insight into our view of systemic risk and how it is potentially impacted by individual financial institutions. The second was released in February 2018, and provided our policy recommendations to reform the Orderly Liquidation Authority, or OLA, and to establish an appropriate bankruptcy regime for financial companies in the United States.

In developing these recommendations, Treasury was guided by the Core Principles of the Executive Order, which included preventing taxpayer-funded bailouts and making regulations efficient, effective, and appropriately tailored. Accordingly, Treasury aimed to identify a set of recommendations that would reduce and simplify regulatory burdens overall without giving up the important gains in safety and soundness that had been made in the post-crisis regulatory regime. Treasury supports a strong and well-regulated financial system and the retention of the key post-crisis reform efforts adopted for the largest banks, including: strengthened capital standards, robust supervisory stress-tests, stronger liquidity requirements, resolution planning, and a range of other enhanced prudential standards. Treasury also recommended specific changes to provide relief for our small, regional, and mid-size banks – and particularly our community banks and credit unions – that play a critical role funding communities across America. Furthermore, throughout these reports, Treasury supported enhanced regulatory coordination.

Across these reports, we have made hundreds of recommendations for financial regulators and Congress. The complete list of recommendations can be found in the Appendix section of each

report. While there is more work to be done to implement these important reforms to our financial system, Treasury strongly supports the continued efforts of the U.S. federal financial regulators and encourages them to work expeditiously to implement these changes.

**Question:**

According to the recent data compiled by Keefe, Bruyette and Woods, U.S. G-SIBs made \$780 billion in profits last 10 years while paying at least \$163.7 billion in fines.

- a) Do you believe enforcement fines amount to the cost of doing business for these G-SIBs?
- b) What steps should policymakers take to ensure there is real accountability for megabanks and their executives that break the law?

**Answer:**

Treasury, consistent with the expectations of our regulators, expects all banking organizations to follow the rule of law and operate in a safe and sound manner. When firms don't meet such standards, they should be held accountable through the appropriate regulators and authorities.

**Question:**

Under the direction of former Federal Reserve Chair Janet Yellen, the agency imposed an asset cap on Wells Fargo until it cleaned up its act after failing to comply with the law on multiple occasions in a manner that harmed millions of consumers. Should the Federal Reserve and other prudential regulators use this and other powers they have at their disposal, including removing culpable senior executives who run organizations that repeatedly violate the law and harm consumers?

**Answer:**

Treasury, consistent with the expectations of our regulators, believes our banking organizations must treat their customers fairly, operate in a safe and sound manner, and follow the rules of law. As the OCC noted, Wells Fargo's performance under its regulatory consent orders has been disappointing. The regulators that supervise Wells Fargo should hold it accountable through appropriate authorities and actions.

**Question:**

After seeing the litany of problems with Wells Fargo's inability to comply with the law and not abuse millions of consumers, do you believe some financial institutions are too big to manage? Why or why not?

**Answer:**

Financial institutions of all sizes and business models are important to the viability and diversification of our domestic financial ecosystem. Each institution presents different risks to the system based off of their business models and practices. Treasury expects financial



institutions of all sizes to comply with all applicable laws and to treat their customers fairly. More broadly, Treasury expects that regulators and law enforcement hold bad actors accountable, including our domestic financial institutions

**Question:**

In early 2016, the Financial Stability Oversight Council (FSOC) released a report on asset management activities, including in private funds, such as hedge funds, and also the large asset management firms that dominate registered funds. This report found substantial cause for concern about dangers to the financial system and the public. These included possibly dangerous and risky levels of borrowing at a subset of very large hedge funds, and possible threats to investors and the financial system from rapid redemption of positions at large asset managers.<sup>2</sup> The report also found that data in these areas was inadequate and urged further research, work, and eventual action if needed. I have not seen any public indication that work in this area has continued at the FSOC

Has work in this area continued or has it been cut off? If so, why?

**Answer:**

The U.S. asset management industry is a critical component of our financial system and economy. Ensuring that adequate information is available to evaluate risks in the asset management industry remains a Council focus. For example, the Council recommended in its 2018 annual report that relevant agencies continue to review their data collections and assess whether they are sufficient to monitor whether and how private funds—pooled investment vehicles such as hedge funds and private equity funds that are exempt from the definition of “investment company” under the Investment Company Act of 1940—may pose risks to financial stability.

**Question:**

Has anyone contacted you to ask that the FSOC stop working to investigate risk in private funds and/or asset management?

**Answer:**

The Council continues to fulfill its statutory duties to monitor the financial services marketplace in order to identify potential threats to U.S. financial stability and to identify gaps in regulation that could pose risks to U.S. financial stability. In response to the Council’s recent notice of proposed guidance regarding nonbank financial company designations, several commenters argued that asset managers do not create risks to financial stability. However, the Council’s annual reports analyze key financial market and regulatory developments related to private funds and the asset management industry, and the Council’s 2018 annual report included a recommendation on this topic.

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<sup>2</sup> <https://www.treasury.gov/press-center/press-releases/Pages/j10431.aspx>

**Question:**

What if any grounds do you have to believe that the risks identified under the Obama Administration are not still present?

**Answer:**

As noted above, the Council recommended in its 2018 annual report that relevant agencies continue to monitor whether and how private funds may pose risks to financial stability. The Council also expressed support for efforts to improve metrics and analytical tools used to evaluate asset management risks, as well as continued collaboration among regulators and industry on reporting standards.

**Question:**

The failure to regulate giant non-bank financial institutions led to disaster in 2008. Large investment firms like Lehman Brothers, Bear Stearns and Goldman Sachs (which was not at that time regulated as a bank) were at the heart of the financial crisis. And an insurance company, AIG, was also at the center of the crisis and received the largest taxpayer bailout in American history. Secretary Mnuchin, under your leadership the Financial Stability Oversight Council (FSOC) has aggressively deregulated all the non-bank financial firms previously designated by FSOC under the Obama Administration. According to the nonpartisan Systemic Risk Lab at New York University's Stern School of Business, all three of the giant insurance companies you have removed from Federal regulation – specifically AIG, Prudential, and Metlife – are among the top ten U.S. firms in the risk they pose to the financial system.<sup>3</sup> The FSOC has proposed additional changes to the designation process that will make it very difficult if not impossible for the FSOC to designate any large, complex non-bank financial firm that could pose a systemic threat to U.S. financial stability.

The FSOC's proposal is very concerning, as it says that the Council would base any future designation of a firm based on its current likelihood of financial distress – in other words, that firms would not be designated for regulation unless there are already signs they might fail or get in trouble. Isn't it basically too late at that point?

**Answer:**

In March 2019, the Council issued for public comment proposed interpretive guidance that would prioritize an activities-based approach to identifying and addressing potential risks to financial stability. If the Council determines that the activities-based approach does not adequately address a potential risk, the proposal would also enhance the analytical rigor and transparency of the process the Council would follow in evaluating a nonbank financial company for potential designation.

In its proposal, the Council acknowledged the difficulty of accurately forecasting firm failures, particularly beyond a very short time period, and suggested that it will generally take into

<sup>3</sup> <https://vlab.stern.nyu.edu/welcome/risk/>

account both quantitative and qualitative factors, including the characteristics of financial companies that have historically experienced financial distress. The comment period closed on May 13, and the Council is now considering the public comments.

**Question:**

And wouldn't that procedure send a terrible signal to the market if you ever did designate a firm – that the Federal government thought it might already be in serious trouble?

**Answer:**

As noted above, the public comment period for the Council's proposed interpretive guidance closed on May 13, 2019, and the Council is now considering the public comments.

**Question:**

The proposal also states FSOC is moving away from designating large, complex financial firms for heightened oversight and will instead take an "activity-based" approach. As you know, the FSOC does not have the power to designate financial activities for increased oversight with any binding authority, it can only make non-binding suggestions to regulatory agencies. So FSOC appears to be neglecting the powers that Congress actually gave you, which was to designate large, complex financial firms that pose a systemic risk, to this new approach that will only offer suggestions. The FSOC annual report has included a range of recommendations. Should we expect any new recommendations to emerge from this "activities-based" approach?

**Answer:**

The public comment period for the Council's proposed interpretive guidance closed on May 13, 2019, and the Council is now considering the public comments.

**Question:**

Should Congress give the FSOC increased powers to designate financial activities and compel increased regulation and oversight of such activities? Why or why not?

**Answer:**

The Council has authority under section 120 of the Dodd-Frank Wall Street Reform and Consumer Protection Act to make nonbinding recommendations to primary financial regulatory agencies. The Council also has other tools to respond to emerging risks, including working collaboratively with regulators to address identified risks and designating individual nonbank financial companies whose material financial distress or activities could pose a threat to U.S. financial stability.

**Question:**

Please provide the latest statistics FSOC and the Office of Financial Research has on the amount of leveraged lending there is in the U.S. financial system. What concerns, if any, do you have regarding leveraged lending?

**Answer:**

As of January 2019, the total size of the institutional leveraged loan market is estimated to be \$1.2 trillion outstanding. Treasury and the federal financial regulatory agencies are engaged in analysis and coordination, including through the FSOC, regarding potential risks related to nonfinancial corporate credit and leveraged lending.

As a result of its ongoing monitoring efforts, the Council's 2018 annual report includes detailed data regarding trends in the ratios of corporate debt to GDP, debt to assets, and debt to earnings; the growth in corporate loans and bonds; and underwriting standards.

A number of these metrics suggest that, after a prolonged period of growth, nonfinancial business leverage is at the upper end of historical ranges. However, strong interest coverage and liquidity positions have allowed businesses to service this debt with low delinquency rates, and the U.S. economy continues to experience strong growth.

As discussed in the Council's 2018 annual report, if the U.S. economy were to experience a recession, delinquency rates would be expected to increase. Any impact on financial stability would depend on the extent and severity of these defaults, whether there were spillovers to other markets, and the ability of investors and intermediaries to manage losses.

The U.S. financial system is clearly stronger and much better positioned to withstand a shock or an economic downturn than it was before the financial crisis. Nonetheless, we will remain vigilant regarding potential emerging threats.

**Question:**

What steps should financial regulators take to curb any excessive risk-taking that could post systemic risks?

**Answer:**

The Council's 2018 annual report represents the collective view of U.S. financial regulators regarding significant financial market and regulatory developments and potential emerging threats to U.S. financial stability. Recommendations in the 2018 annual report include:

- Support of efforts to ensure that agencies have the authorities necessary to supervise and enhance third-party service provider information security;
- That member agencies work closely with market participants to identify and mitigate risks from potential dislocations during the transition to a new alternative reference rate;
- That agencies continue to monitor levels of nonfinancial business leverage, trends in asset valuations, and potential implications for the entities they regulate in order to assess and reinforce their ability to manage severe, simultaneous losses in those markets; and

- That federal and state financial regulators continue to work together to evaluate regulatory overlap and duplication, modernize outdated regulations, and, where authority exists, tailor regulations based on the size and complexity of financial institutions.

**Question:**

Do you find the level of executive compensation at major banks to be excessive? Why or why not?

**Answer:**

The compensation programs of financial institutions, including those for executives, should be determined through an effective corporate governance process that is overseen by a firm's boards of directors. Compensation is a critical component of managing a financial institution and should be determined by a range of factors, including competitive private market forces, principles of fairness and accountability, the avoidance of incentivizing harmful behavior to customers or the firm, and following all applicable laws and regulations.

**Question:**

How many employees at each U.S. global systemically important bank (G-SIB) earns more than \$1 million?

**Answer:**

Department of the Treasury does not collect salary information for G-SIBs, so we are not able to provide this metric.

**Question:**

There are large pay disparities between what top executives are paid at each U.S. global systemically important bank (G-SIB), compared to what the average bank employee gets paid, with ratios ranging from 151 to 1, to as high as 486 to 1. Are you concerned about these large pay ratio disparities, and if so, what steps can policymakers do to close these gaps?

**Answer:**

See response for the ninth question above.

**Question:**

The President recently issued a memo to you and other government officials relating to housing finance reform, and he tasked you to develop a framework to reform the GSEs. Specifically, you were directed to develop a plan for administrative and legislative reforms to achieve a series of goals. What is your timeline to develop and release this framework, and what are your priorities in developing this plan?

**Answer:**

On March 27, President Trump signed a Presidential Memorandum directing Treasury and the Department of Housing and Urban Development (HUD) to develop housing finance reform plans designed to reduce taxpayer risks, expand the private sector's role, and modernize government housing finance programs, among other goals. On September 5, Treasury submitted to the President the Housing Reform Plan required by that Presidential Memorandum.

