

**Questions for Treasury Secretary-designee Timothy F. Geithner
From Senator Carl Levin
January 18, 2009**

Market Oversight

1) In 1998, former SEC Chairman Arthur Levitt, Treasury Secretary Lawrence Summers, and Federal Reserve Chairman Alan Greenspan all opposed an attempt by the Commodity Futures Trading Commission (CFTC) to examine the over-the-counter (OTC) swaps market and then supported statutory restrictions on federal authority to regulate swaps in the Commodity Futures Modernization Act of 2000. Former Chairman Levitt recently stated that he now regrets the position he took during those years: “The market was too large, too explosive in growth to merely allow pure market forces to suffice as self-regulatory mechanisms. I have some regrets about it, clearly.” In October 2008, Mr. Levitt wrote: “Our nation’s financial markets are in the midst of their darkest hour in 76 years. We are in this situation because of an adherence to a deregulatory approach to the explosive growth and expansion of America’s major financial institutions. Our regulatory system failed to adapt to important, dynamic and potentially lethal new financial instruments as the storm clouds gathered.”

- a) Do you agree with former Chairman Levitt’s statement that our regulatory system has failed to adapt to the development of new financial instruments and that the positions taken in 1998-2000 to deregulate markets was, in retrospect, a mistake?
- b) Should federal oversight be strengthened with respect to new financial products, including new derivative and complex structured financial products and, if so, how?

I believe that our regulatory system failed to adapt to the emergence of new risks. And I very much believe that federal oversight needs to be strengthened, including in the areas of derivative markets. If confirmed, I look forward to working closely with Congress to put in place comprehensive financial reform. We are going to need sweeping changes, in regulatory policy, the oversight structure, and in our tools for crisis management.

In this context, we will have to carefully evaluate the changes in laws and regulation of the last decade.

If confirmed, I will work closely with the Federal Reserve, the CFTC, the SEC and Congress to address the gaps in our current financial market and product regulation.

2) Former Federal Reserve Chairman Alan Greenspan testified last October that he, too, now believes that the conceptual framework underlying the deregulation of swaps in the CFMA was a mistake. Mr. Greenspan testified: “I made a mistake in presuming that the self-interests of organizations, specifically banks and others, were such as that they were best capable of protecting their own shareholders and their equity in the firms. . . . So the problem here is something which looked to be a very solid edifice and, indeed, a critical pillar to market competition and free markets did break down.”

- a) Do you agree with Mr. Greenspan's recent statements that the financial collapse of 2008 demonstrated the errors in the assumptions underlying the deregulatory approach in the CFMA? Can we rely on market participants and unfettered free market forces to prevent systemic risks and unreasonable price fluctuations?
- b) Do you support stronger regulation of U.S. financial markets to protect market participants and prevent systemic risks and, if so, how?

I agree that market discipline failed in important respects, and those failures were magnified by failures in supervision and oversight. As I mentioned in my previous answer, I believe that we must have a much stronger and comprehensive framework of safeguards in place to protect investors and consumers and to provide greater financial stability.

With respect to over the counter derivatives markets, I believe we need to have as our objective bringing greater transparency, accountability and safety to these markets. There may be a number of ways to achieve this, but steps to be taken in the short-term include bringing standardized products within centralized clearing mechanisms and setting an effective statutory and regulatory framework for regulating all derivatives dealers. If confirmed, I will undertake a careful comprehensive review of how best to strengthen the safeguards for these critically important markets.

3) What are your views on the adequacy of bank oversight by the Office of the Comptroller of the Currency (OCC) and Office of Thrift Supervision (OTS) within the Treasury Department? If confirmed, would you support actions by the OCC and OTS, like actions taken by the Federal Deposit Insurance Corporation (FDIC), to increase bank fees to strengthen oversight?

The current financial crisis has exposed a number of serious deficiencies in our federal regulatory system. If confirmed by the Senate, I am committed to working with the Congress, members of the incoming Administration and other financial regulators to strengthen oversight of depository institutions and other financial entities.

All stakeholders share responsibility for helping to finance crucial oversight of these institutions that are vital to the successful functioning of our economy. Fees on the industry are one source of such financing. In the context of our efforts to reform the regulatory system, I would be willing to consider changes to how we ensure sufficient resources are available to finance a stronger and more sophisticated supervisory and enforcement system.

4) What are your views on consolidating the OTS and the OCC to lower costs and increase consistent oversight? Do you agree with the view that the OTS lowered standards to attract thrifts and increase its fee revenue?

As we examine the deficiencies in our existing regulatory structure, we need to consider all recommendations for improvement, including the possible consolidation of agencies and functions. I do not currently have adequate information to judge the reasons for, or outcomes of fee-setting policies implemented by OTS officials. Upon reviewing those policies, I look forward to consulting with Congress to take the steps necessary to strengthen the oversight of our financial institutions.

- 5) What are your views on whether and how federal oversight should be strengthened with respect to:
- a) hedge funds?
 - b) companies that are not banks or broker-dealers, but buy and sell financial swaps and other financial products, like AIG Financial Products?

Effective federal oversight of systematically significant financial institutions, whose failure could destabilize our markets and severely disrupt credit flows, is critical to protecting the integrity of our economy. I support the goal of having a registration regime for hedge funds because we need greater information and better disclosure in the marketplace. I believe that we should also establish an effective regulatory framework for derivatives dealers.

- 6) In 2004, Congress enacted legislation imposing a one-year cooling-off period before federal bank examiners could take a job with a bank they oversaw. If confirmed, would you support a similar cooling-off period for all financial regulators?

Yes, I would support.

Capital Reserve Requirements

- 7) What are your views on the current U.S. capital reserve requirements for banks organized or operating in the United States?
- a) Are existing U.S. capital reserve requirements insufficient or are they sufficient but were inadequately enforced to prevent the current financial crisis?
 - b) Should there be increased capital reserve requirements for banks that engage in:
 - derivative transactions?
 - credit default swaps?
 - other types of swaps, including interest rate, currency, equity, and commodity swaps?
 - all or some types of securitizations?
 - transactions occurring offshore or involving offshore entities?
 - over-the-counter transactions that are outside federal disclosure and regulation requirements?
 - c) What changes, if any, do you support in U.S. capital reserve requirements for banks to protect the U.S. financial system and prevent future financial crises?

Ensuring that U.S. banks maintain adequate capital reserves is a critical component of a well-functioning banking system. The financial crisis has revealed that many U.S. and foreign banks did not have adequate capital reserves to offset the losses that they sustained requiring dramatic policy action to address this problem. If confirmed, I will instruct Treasury in conjunction with other

regulators to conduct a comprehensive review of existing capital requirements and related accounting regimes.

Complex Structured Finance Transactions

8) How important a role did collateral debt obligations (CDOs), auction-rate securities, structured investment vehicles (SIVs), and other structured finance transactions play in the current financial crisis? What were the regulatory deficiencies that allowed these transactions to undermine U.S. financial stability, and how would you correct them?

All of these structures--CDOs, SIVs, auction-rate securities—played a part in facilitating the contagion that led to our financial crisis. Product innovation outstripped the capacity of initial risk management and regulatory oversight to keep up. Exacerbating the situation was the degree of reliance on ratings agencies and the vulnerability of those ratings to potential conflicts of interest, a decline in underwriting standards, and a severe downturn in the housing sector. In retrospect, far too little attention was paid to the magnitude of exposure of U.S. financial institutions to mortgage-based securities.

Apart from the changes already underway to regulatory policy (e.g. capital and liquidity requirements) and longer term changes to regulatory structure, there need to be significant changes to how supervision is conducted in the major institutions. I believe these changes should include: increased focus on systemic vulnerabilities; efforts to design and carry out more effective reviews of risk management practices; mechanisms for making the conclusions of select reports public, along the lines of the Senior Supervisors' Group surveys that are currently released to the public; more frequent and more focused forward-looking assessments of capital and liquidity adequacy under a range of possible scenarios; meaningful institutionalization of the cooperative process now underway with the SEC, FDIC, OCC, OTS and primary foreign supervisors in the design of and follow-up on horizontal reviews across firms; greater efforts to ensure that supervisors have adequate information on global exposures and funding positions of large foreign financial institutions operating within the U.S.; more frequent reviews of valuation practices for select types of assets across institutions as a way of revealing significant outliers in those practices; and more focus on the quality of an institution's internal checks and balances, such as incentives in compensation schemes, allocation of capital, pricing of internal liquidity and independence of valuation functions.

9) In 2004, the Office of the Comptroller (OCC) and the Office of Thrift Supervision (OTS) in the Treasury Department, the Federal Reserve, the Federal Deposit Insurance Corporation (FDIC), and the Securities and Exchange Commission (SEC) issued a proposed Interagency Statement on Sound Practices Concerning Elevated Risk Complex Structured Finance Activities ("Interagency Statement on Sound Practices"). In 2006, the agencies issued a revised proposal, and issued a final statement in 2007.

- a) Please describe your role, if any, in agency deliberations with respect to the proposed and final statements. If you participated, did you support the revisions to the 2004 proposed statement?
- b) The Interagency Statement on Sound Practices became effective on January 11, 2007. According to the statement, the OCC, OTS, Federal Reserve, FDIC, and SEC were to use the Statement as guidance for reviewing the internal controls and risk management policies, procedures, and systems of financial institutions engaged in Complex Structured Finance Transactions (CSFTs) as part of their ongoing supervisory process. Were you aware of this guidance, and do you know if the guidance was regularly adhered to by each of the federal agencies that signed the statement since its effective date?
- c) The Interagency Statement indicates that CDOs and credit default swaps (CDS) typically would not be considered to be CSFTs subject to the guidance. In light of the role played by CDO and CDS transactions in the current financial crisis, would you support revising this approach so that CDO and CDS transactions are covered by the Interagency Statement on Sound Practices?

While I did not participate in the interagency deliberations with respect to the proposed and final statements, members of the Federal Reserve Bank of New York staff worked with staff at the Federal Reserve Board of Governors to provide input into the background materials for those deliberations.

I was aware of this guidance. I cannot attest as to the extent to which the guidance was regularly adhered to by each of the five federal agencies that were signatories to the guidance. With respect to the activities of the Federal Reserve Bank of New York, our supervisors were actively engaged in evaluating the remedial efforts of two large banking organizations and the complex structured finance transactions they engaged in with Enron.

The interagency statement focuses on the heightened legal and reputational risks that institutions may face in connection with complex structured finance transactions. The guidance provides as examples of transactions that may warrant additional scrutiny such as those that:

- Lack economic substance or business purpose;
- Appear to be designed or used primarily for questionable accounting, regulatory, or tax objectives, particularly when the transactions are executed at year end or at the end of a reporting period for the customer;
- Raise concerns that the client will report or disclose the transaction in its public filings or financial statements in a manner that is materially misleading or inconsistent with the substance of the transaction or applicable regulatory or accounting requirements;
- Involve circular transfers of risk (either between the financial institution and the customer or between the customer and other related parties) that lack economic substance or business purpose;
- Involve oral or undocumented agreements that, when taken into account, would have a material impact on the regulatory, tax, or accounting treatment of the related transaction, or the client's disclosure obligations;

- Have material economic terms that are inconsistent with market norms (e.g., deep "in the money" options or historic rate rollovers); or
- Provide the financial institution with compensation that appears substantially disproportionate to the services provided or investment made by the financial institution or to the credit, market or operational risk assumed by the institution.

While I believe additional supervisory guidance is absolutely necessary to address the massive credit losses and lessons learned from this financial crisis, I do not believe that simply incorporating certain new financial instruments into pre-existing supervisory guidance, which was developed to address an altogether different set of issues, is necessarily the most effective approach. I look forward to working with you on this issue.

10) If confirmed, would you support reviewing the financial institutions that received at least \$1 billion in TARP assistance to determine if they have used their best efforts to comply with the standards and guidance set forth in the Interagency Statement on Sound Practices?

I am committed to assessing efforts to comply with the standards and guidance in this Interagency Statement by TARP recipients and all other financial institutions.

Credit Default Swaps

11) How important a role did credit default swaps (CDSs) play in the current financial crisis? What were the regulatory deficiencies that allowed CDSs to undermine U.S. financial stability?

With respect to over the counter derivatives markets, I believe we need to have as our objective bringing greater transparency, accountability and safety to these markets. There are a number of ways to achieve this, and steps that can be taken include bringing standardized derivative products within centralized clearing mechanisms and setting a statutory and regulatory framework for regulating all derivatives dealers. If confirmed, I intend to work closely with Congress to help develop such a framework to address our needs at this time and the challenges and opportunities ahead of us.

12) The Commodity Futures Modernization Act of 2000 (CFMA) prohibits SEC and CFTC regulation of all types of swaps, including interest rate, currency, equity, commodity, and credit swaps.

- a) What were your job titles and positions from 1998-2000?
- b) Please describe your role, if any, in the efforts by the SEC, Treasury, and Federal Reserve to prevent the CFTC's potential assertion of regulatory authority over swaps and derivatives in 1998.
- c) Please describe your role, if any, during the discussions regarding the CFMA, including provisions to limit SEC and CFTC authority to regulate swaps. Please also include any role you played during the negotiation to limit state authority to regulate these swaps.

- d) Did you support or oppose these statutory provisions at the time they were enacted in 2000?
- e) What is your current view of the statutory prohibitions on regulation of swaps? If confirmed, would you support the repeal of these prohibitions?

In 1998, I served as the Assistant Secretary for International Affairs. In 1999, I served as the Under Secretary for International Affairs.

The financial crisis has highlighted the need to significantly overhaul oversight of our financial system. Currently, many financial instruments trade in over-the-counter markets. Reforms to financial market regulation, including over-the-counter derivatives, must have as an objective bringing greater transparency, accountability and safety to these markets. Additionally, we must ensure that any loopholes that allow market participants to evade regulation are closed and that regulators have the authority and the resources they need to ensure the integrity of our markets. If confirmed, I will begin working with Congress and other financial regulators to accomplish these goals.

13) Should the federal government regulate CDSs? If so, should CDSs be regulated as securities or commodities?

I support establishing a statutory and regulatory framework for overseeing all derivatives dealers, and establishing centralized mechanisms for derivatives products. I look forward to working with Congress relating to the unique features of Credit Default Swaps given their relationship to the transparency and market integrity of the corporate bond and equity markets.

Furthermore, given the relationship of these derivatives to the commodities and securities markets, I believe that we need to foster effective cooperation amongst regulators while ensuring appropriate regulation.

14) What are your views on whether and how the federal government should regulate other types of swaps, such as interest rate, currency, equity, or commodity swaps?

As I have noted, I believe that we need more transparency to promote transparency, accountability and safety for these products.

There may be a number of ways to achieve this, but steps can be taken in the short term to bring all of these products within centralized clearing mechanisms and setting a statutory and regulatory framework for regulating all derivatives dealers.

Troubled Asset Relief Program

15) The Bush Administration, through the Treasury Department's Office of Financial Stability, has declined to impose requirements on companies receiving Troubled Asset Relief Program (TARP) funds to report on how they will use those funds. If confirmed, would you support imposing reporting requirements on TARP recipients to determine how they use TARP funds? Would you support requiring banks to lend a portion of those funds to third parties?

The President-elect believes that assistance under the Emergency Economic Stabilization Act of 2008 must promote the stability of the financial system and increase lending. If confirmed, I will ensure that we will measure, monitor and track the impact of the program on lending and access to credit. Going forward, as a condition of federal assistance under this program, healthy banks without major capital shortfalls will be required to increase lending above baseline levels.

If confirmed as Secretary of Treasury, I will require the recipients of investments under this program to provide detailed and timely information on their lending patterns broken down by category. Public companies would report this information quarterly in conjunction with the release of their 10Q reports.

16) If confirmed, would you support requiring a viability plan by a specified date from each financial institution that received at least \$1 billion in TARP funds to outline how they plan to maintain or regain financial stability, identify and reduce any inventories of troubled assets, repay any TARP loans, and eliminate the need for any federal guarantees?

The President-elect believes that assistance under the Emergency Economic Stabilization Act of 2008 must promote the stability of the financial system and increase lending. If confirmed, I will implement safeguards in this program to improve the effectiveness of our financial stabilization efforts. As Treasury Secretary, I would ensure that the terms of investments made under this Act are appropriately designed to promote rapid repayment of government funds and to encourage private capital to replace public investments as soon as economic conditions permit. If confirmed, I will work with Congress to ensure that the conditions for assistance reflect our shared objective of ensuring that public assistance for the financial system will be temporary, not permanent.

17) If confirmed, what policies, procedures and controls would you implement to protect the billions of taxpayer dollars and guarantees extended to Citigroup and AIG?

The President-elect is committed to safeguarding taxpayer interests under the Emergency Economic Stabilization Act of 2008. If confirmed, I will ensure that assistance provided under this Act is undertaken with the maximum degree of accountability and transparency possible, and I will closely monitor the financial condition of firms that have received large amounts of assistance under this program. The terms of support extended under the Emergency Economic Stabilization Act of 2008 to Citigroup and AIG have been established in the agreements reached with those firms. Our objective will be to seek to replace investments made by the U.S. Government with private investment as quickly as possible.

18) If confirmed, what controls would you impose on TARP recipients to ensure compliance with requirements on executive pay, stock dividends, and the \$500,000 cap on compensation tax deductions?

Excessive executive compensation that provides inappropriate incentives has played a role in exacerbating the financial crisis. This issue has been and should continue to be closely examined by the public, shareholders, boards of directors, Congress, and the incoming Administration, including Treasury and the SEC. If confirmed, I will charge my staff at Treasury, including the Internal Revenue Service, with ensuring that the regulations implementing the executive compensation provisions of the Economic Emergency Stabilization Act (EESA) are fully complied with.

One specific control we would plan to impose on TARP recipients is that executive compensation above a specified threshold amount be paid in restricted stock or similar form that cannot be liquidated or sold until government assistance has been repaid. In addition, we would limit TARP recipients' ability to pay dividends. One specific measure would be a requirement that TARP recipients wishing to pay dividends obtain approval from their primary federal regulator. In addition, in the case of TARP recipients receiving exceptional assistance, quarterly dividends would be strictly limited until the government has been repaid. These controls are described in National Economic Council Director-Designate Summers' January 15, 2009 letter to the Congressional leadership.

If confirmed, I will work and coordinate closely with Congress and members of the administration. To that end, my staff will examine the administrative guidance that Treasury has issued under the TARP and EESA, including Treasury's interim final rule and Notice 2008-94, Notice 2008-PSSFI, and Notice 2008-TAAP. We will also review the reports from the GAO and the Congressional Oversight Panel.

19) If confirmed, would you favor extension of the \$500,000 cap on compensation tax deductions to all U.S. corporations and all of their employees to end taxpayer subsidies of excessive executive pay?

If confirmed, I would consider extending at least some of the TARP provisions and features of the \$500,000 cap to U.S. companies generally as well as potentially imposing other rules beyond those potentially in effect. A number of the provisions that accompany the \$500,000 cap are worthy of being considered for broader application. The specifics of an effective solution, going forward, require careful analysis, including a review of the newly enacted tax code limitations on offshore deferred compensation.

In reviewing policy options in this area, I will examine prior efforts to limit corporate tax deductions for executive compensation. Prior to the Economic Emergency Stabilization Act (EESA), there have been three major statutory attempts to rein in executive compensation: golden parachutes (Internal Revenue Code section 280G) in the 1984, the million dollar cap on tax deductible compensation (Code Section 162m) in 1993, and restrictions on non-qualified deferred compensation (Code Section 409A) in 2004. Each has faced challenges for different reasons, and some may even have exacerbated the problem they were designed to address.

Any modification will require careful thought, a thorough understanding of the regulatory framework and corporate practices relating to executive compensation, tax policy and employee benefits, and a clear understanding of the implications and likely impact of alternative designs. If confirmed, I intend to draw upon both the expertise at Treasury and the IRS and the advice of leading outside experts in these fields. We will also coordinate closely with the National Economic Council, the SEC, and Congress.

Tax Issues

20) The United States loses an estimated \$100 billion each year from offshore tax abuses.

- a. What priority would you place on tackling the problem of offshore tax abuses?
- b. If confirmed, would you support the Levin-Coleman-Obama Stop Tax Haven Abuse Act to shut down offshore tax abuses?

I share the President-Elect's commitment to aggressively address the problem of offshore tax abuses and complement you and your staff on the excellent work that they have done to highlight the problem. If confirmed, this issue will be a high priority for the Treasury Department.

The President-Elect is committed to shutting down offshore tax schemes and, as you know, cited your legislation as evidence of steps that he would like to take to accomplish this goal. If confirmed, I will treat the offshore tax abuse issue as a high priority and will examine a wide range of policy options to address offshore tax abuses, including increasing IRS enforcement authority, requiring greater disclosure and taxpayer accountability, changing the presumption for transactions in tax-secrecy jurisdictions and other ideas included in your legislation.

21) The Internal Revenue Service (IRS) collects an estimated \$4 for every \$1 spent on enforcement. Would you support additional resources for tax enforcement efforts?

If confirmed, I will be a strong advocate for the Internal Revenue Service and its efforts to secure sufficient funding to carry out its mission successfully. Tax enforcement is a key priority for the IRS and I look forward to working with IRS Commissioner Doug Shulman to ensure that the compliance and enforcement mission of the IRS receives the necessary support and funding.

22) During your tenure as Treasury Under Secretary for International Affairs, did you examine international tax issues, and, if so, what were the most significant issues you examined?

In my capacity as Under Secretary for International Affairs, I did participate in efforts with other Treasury officials, including the Assistant Secretary for Tax Policy, in the G-7 and in the Organization for Economic Cooperation and Development to address the problem of tax havens. Some of the tax enforcement challenges we face now are new, others have plagued our tax system for decades. Under your leadership, the Permanent Subcommittee on Investigations has played a critical role in highlighting egregious tax evasion techniques and the troublesome role of certain tax preparers in exacerbating compliance problems.

23) How do you view the relationship and respective roles of the Treasury Secretary, the Assistant Secretary for Tax Policy, and the IRS Commissioner?

The Secretary of the Treasury is the principal economic advisor to the President and in that role is responsible for formulating and recommending domestic and international financial, economic, and tax policy. The Assistant Secretary for Tax Policy is the Secretary's principal advisor on all tax-related matters. The IRS Commissioner's duties include administering, managing, conducting, directing, and supervising the execution and application of the internal revenue laws or related statutes and tax conventions to which the United States is a party. I will work closely with the Assistant Secretary of Tax Policy and IRS Commissioner to create sound tax proposals and ensure that the current tax laws are administered effectively. Also, I will encourage the Assistant Secretary of Tax Policy and the IRS Commissioner to work together to develop tax policy options that take into account IRS administrative and compliance issues.

Financial Accounting Rules

24) What is your view of the relationship between Treasury and the Financial Accounting Standards Board (FASB)? What is your view on whether Congress should legislate accounting rules?

The SEC has statutory authority to set accounting standards for all public companies. It has recognized and relied on FASB for this task. The role of accounting and reporting standards is to help provide investors and the capital markets with sound, unbiased financial information on the activities, results, and financial condition of reporting enterprises. It is important to investor protection and the integrity of markets that we maintain the independence of this standard setting process.

25) The SEC recently issued a report supporting the existing mark-to-market valuation rules, but recommending some improvements. What is your view of the current mark-to-market valuation rules?

The role of accounting and reporting standards is to help provide investors and the capital markets with sound, unbiased financial information. Mark-to-market accounting and reporting helps protect investors, promote transparency and market integrity and act as a risk management tool.

26) Do you believe U.S. banks have fully applied mark-to-market valuations to the structured finance transactions on their books, including asset-backed securities, credit default swaps, and CDOs? Do you believe inaccurate valuations are currently impeding U.S. credit markets? If confirmed, what actions would you take to insure accurate book valuations for U.S. banks?

I believe bank regulators could be part of the solution in helping institutions ensure that they help all employees and officers fully comply with all applicable accounting rules. Inaccurate asset valuations have contributed to investor distrust about the information available to them in making investment decisions.

27) Current SEC Chair Christopher Cox has indicated that he thinks the SEC should allow U.S. publicly traded companies to use international financial reporting standards (IFRS) issued by the International Accounting Standards Board (IASB) instead of U.S. generally accepted accounting principles (GAAP) in their financial statements. Do you believe the Sarbanes-Oxley Act allows the SEC to delegate the development of accounting standards to the IASB? If confirmed, would you try to advance such a proposal?

Without reliable information, our markets cannot function effectively. The thrust of Sarbanes-Oxley was to improve the accuracy of information provided to investors by public companies. I do not believe that the Act allows the SEC to delegate to another entity the development and enforcement of accounting rules for U.S. companies. The International Accounting Standards Board works with the FASB and SEC to enhance global accounting rules that affect U.S. companies and other investors, as well as international investors. I support and will do my best to advance actions to improve the flow of consistently reliable information that provides a sound basis for investor confidence and help ensure that the U.S. remains a leader in global markets.

28) What is your view of the FASB accounting standard rule requiring stock option compensation to be treated as an expense on corporate financial statements? If confirmed, would you support efforts to change this standard? If so, what changes would you support?

The role of accounting and reporting standards is to help provide investors and the capital markets with sound, unbiased financial information. If I am confirmed as Treasury Secretary, I will review and support all rules, including the FASB accounting standard rule requiring stock option compensation, designed to protect taxpayers and investors.

29) Right now U.S. corporate tax deductions for stock option compensation are not in alignment with the mandatory accounting treatment of this compensation, and often result in corporate tax deductions that are many times larger than the compensation expense shown on the corporate books. If confirmed, would you agree to review this discrepancy between book and tax treatment of corporate stock option compensation?

The relationship between how corporations treat stock option compensation for tax and financial accounting purposes is a complex topic. If confirmed, I will examine the issue and explore policy options in this area.

Abusive Credit Card Practices

30) Senate and House hearings have documented abusive credit card practices that mire American families in debt. In December, the Federal Reserve issued a new rule identifying certain unfair or deceptive credit card practices to be barred beginning in 2010.

- a. If confirmed, would you support or oppose legislation to codify the Federal Reserve rule?
- b. If confirmed, would you support or oppose legislation to ban additional unfair credit card practices?
- c. All major U.S. credit card issuers are national banks, and several are overseen by the OCC. If confirmed, what priority would you place on ensuring that these banks comply with the new credit card rules on a timely basis?

The Federal Reserve has recently finalized new regulations that apply to the credit card industry. If confirmed, and in consultation with the Treasury staff, I will review these rules to determine if additional statutory changes are needed to protect cardholders from abusive credit card practices.

President-elect Obama has proposed a number of initiatives both to improve transparency in order to empower consumers to better protect themselves and to ban certain credit card practices such as universal defaults and retroactive rate charges. I intend to work with Congress as well as other federal regulators to ensure effective consumer protection.

I do now, and would as Treasury Secretary, if confirmed, continue to place a high priority on enforcement of all banking rules.

Anti-Money Laundering Programs

31) Offshore jurisdictions too often facilitate money laundering, foreign corruption, tax evasion, and other misconduct.

- a. If confirmed, would you support international efforts to combat offshore secrecy laws that facilitate wrongdoing?
- b. An innovative U.S. enforcement effort is pending to limit Swiss secrecy laws by serving a John Doe summons on a Swiss bank, UBS AG, to obtain the names of approximately 19,000 U.S. clients with \$18 billion in Swiss accounts that have not been disclosed to the IRS. If confirmed, would you support the ongoing litigation to enforce the John Doe summons?
- c. The Financial Action Task Force (FATF) is the leading international body combating terrorist financing and money laundering. If confirmed, would you support a reinvigorated effort by FATF to identify countries that are not actively cooperating with anti-money laundering (AML) efforts?
- d. In 2006, FATF criticized the U.S. for forming nearly two million corporations and limited liability companies each year without identifying the beneficial owners behind them. FATF asked the U.S. to correct this deficiency in its AML laws by June 2008. The U.S. has missed that deadline in part because the states have been unable to agree on beneficial ownership disclosure rules that would meet FATF standards. If confirmed, would you support the Levin-Coleman-Obama legislation introduced in the last Congress to correct this deficiency in state incorporation practices?

Illicit finance is not only a concern for law enforcement, but it can also pose challenges to the integrity of the financial system and threats to U.S. national security interests. If confirmed, I will support an international cooperative effort to address abuses and wrongdoings that are facilitated by offshore secrecy laws.

If confirmed, I would request a briefing on this enforcement effort by the IRS Commissioner, the IRS Chief Counsel, the Treasury General Counsel and the Assistant Secretary of Tax Policy so that I understand the options and status of this effort.

FATF has indeed played a very important role in the effort to combat global money laundering in general and more recently the effort to combat terrorist financing specifically. I take these issues very seriously, understanding them to be at the nexus of U.S. national security, intelligence, diplomatic, economic and law enforcement interests. If confirmed I will look forward to working with the Administration's national security team to seek additional measure to target illicit finance, including through reinvigorated FATF measures. I will also look forward to working with Congress on these issues.

Recent Financial Crisis

32) Please describe your role, including whether you had personal discussions with the Federal Reserve Chairman and Treasury Secretary and any other actions you have taken, with regard to providing capital or financial guarantees to AIG since September 2008.

As the President of the Federal Reserve Bank of New York, I was involved with, and engaged in, extensive conversations with Chairman Bernanke and Secretary Paulson about all aspects of the actions we collectively undertook to stabilize AIG in September and November of 2008. I also engaged with John Reich, the Directors of the Office of Thrift Supervision, as well as with the New York state insurance commissioner, Eric Dinallo.

33) Please describe your role, including whether you had personal discussions with the Federal Reserve Chairman and Treasury Secretary and any other actions you have taken, with regard to providing capital or financial guarantees to Citigroup since September 2008.

As the President of the Federal Reserve Bank of New York, I was closely involved and engaged in extensive conversations with Chairman Bernanke and Secretary Paulson about, the actions taken with respect to Citibank and the other large financial institutions that received capital and guarantees in the October launch of the Treasury's Capital Purchase Program and the FDIC's Temporary Liquidity Guarantee Program. I was also closely involved in the discussions of how to structure the government's package to stabilize Citibank in late November 2008. However, I was not involved in the government's direct negotiations with the management of Citibank over the precise terms or structure of the deal that was struck over the course of the weekend of November 24-25.

34) Please describe your role, including whether you had personal discussions with the Federal Reserve Chairman and Treasury Secretary and any other actions you have taken, with regard to the acquisition of Bear Stearns by JPMorgan Chase.

As the President of the Federal Reserve Bank of NY, I was deeply involved in, and had many personal discussions with Chairman Bernanke and Secretary Paulson around the actions taken by the Federal Reserve and the Treasury to facilitate the acquisition of Bear Stearns by JPMorgan Chase. As Bear Stearns was not an entity that fell under the Federal Reserve's oversight, I also engaged in numerous conversations with Chairman Cox at the SEC during that period as well.

35) Please describe your role, including whether you had personal discussions with the Federal Reserve Chairman and Treasury Secretary and any other actions you have taken, with regard to the acquisition of Countrywide and Merrill Lynch by Bank of America?

While I was kept apprised of the developments around the acquisitions of both Countrywide and Merrill Lynch by Bank of America through conversations with Chairman Bernanke, Secretary Paulson and Richmond Fed President Jeffrey Lacker, I was not involved in the negotiations or decision-making with respect to either of these transactions as the Federal Reserve Bank of New York is not responsible for the oversight of Bank of America.

36) Please describe your role, including whether you had personal discussions with the Federal Reserve Chairman and Treasury Secretary and any other actions you have taken, with regard to the acquisition of Wachovia Corporation by Wells Fargo?

I was involved in the developments around the acquisition of Wachovia by Wells Fargo through conversations with Chairman Bernanke, Secretary Paulson, Chairman Bair and Richmond and San Francisco Fed President's Lacker and Yellen. I was not involved in the negotiations with respect to this transaction as the Federal Reserve Bank of New York does not oversee either Wells Fargo or Wachovia.

37) Please describe your role, including whether you had personal discussions with the Federal Reserve Chairman and Treasury Secretary and any other actions you have taken, with regard to providing capital or financial guarantees to Fannie Mae and Freddie Mac in 2008.

I was involved in, and kept apprised of, many of the discussions with Chairman Bernanke, Secretary Paulson, FHFA Director Lockhart, and others around the Treasury's efforts to assess the need and method to stabilize the situation with the GSEs at that time. As these institutions were not under the oversight of the Federal Reserve Bank of New York, I was not directly involved in the decision of the government to put the GSEs into conservatorship.

38) Please describe your role, including whether you had personal discussions with the Federal Reserve Chairman and Treasury Secretary and any other actions you have taken, with regard to Lehman Brothers in September 2008.

As the President of the Federal Reserve Bank of New York, I was engaged in extensive conversations with Chairman Bernanke, Secretary Paulson, Chairman Cox and others during the period leading up to the bankruptcy of Lehman Brothers in September 2008. Over the weekend prior to Lehman's declaration of bankruptcy, meetings were held with the heads of a number of large financial institutions at the Federal Reserve Bank of New York, and I participated in these meetings along with Secretary Paulson.