

**NOMINATIONS OF ROBERT M. KIMMITT,  
RANDAL QUARLES, SANDRA L. PACK, AND  
KEVIN I. FROMER**

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**HEARING**

BEFORE THE

**COMMITTEE ON FINANCE  
UNITED STATES SENATE**

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

ON THE

NOMINATIONS OF

ROBERT M. KIMMITT, TO BE DEPUTY SECRETARY OF THE TREASURY;  
RANDAL QUARLES, TO BE UNDER SECRETARY OF THE TREASURY,  
DOMESTIC FINANCE; SANDRA L. PACK, TO BE ASSISTANT SECRETARY  
OF THE TREASURY, MANAGEMENT; AND KEVIN I. FROMER, TO BE  
DEPUTY UNDER SECRETARY OF THE TREASURY, LEGISLATIVE  
AFFAIRS

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JULY 20, 2005  
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WEDNESDAY, JULY 20, 2005

U.S. SENATE,  
COMMITTEE ON FINANCE,  
*Washington, DC.*

The hearing was convened, pursuant to notice, at 10:07 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Charles E. Grassley (chairman of the committee) presiding.

Present: Senators Lott, Smith, Bunning, Baucus, Bingaman, and Wyden.

Also present: Republican staff: Dean Zerbe, tax counsel and senior counsel to the Chairman; Nick Wyatt, tax assistant; Democratic staff: Bill Dauster, deputy staff director; Pat Heck, chief tax counsel; Jonathan Selib, tax counsel; and Mary Baker, detailee.

**OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA, CHAIRMAN, COMMITTEE ON FINANCE**

The CHAIRMAN. The hearing is convened to consider four Presidential nominations to the Treasury.

First, we congratulate the nominees and, of course, we commend them for a lifetime of devotion to public service, or for the public service that they are now entering into.

All four nominees will appear on this single panel, as you can see from their lining up there now.

Today, we will hear from Ambassador Robert Kimmitt, the Honorable Randal Quarles, the Honorable Sandra Pack, and Mr. Kevin Fromer.

Ambassador Kimmitt is nominated as Deputy Secretary of the Treasury. He has already had a very distinguished career that has included an appointment as ambassador to Germany, along with very good positions in the private sector.

The next nominee, Randal Quarles, nominated to be Under Secretary of Domestic Finance, is currently serving as Assistant Sec-

retary for International Affairs. Mr. Quarles previously served as U.S. Executive Director of the IMF, and has partnered his public service with an extensive private-sector experience.

Our third nominee, Sandra Pack, is nominated to be Assistant Secretary for Management. Ms. Pack previously served as Assistant Secretary for Financial Management and Comptroller at the U.S. Army.

The last nominee is Kevin Fromer, to be Deputy Under Secretary for Legislative Affairs. He is capping a career that is long and distinguished on Capitol Hill with his current appointment as Assistant to the Speaker for Policy, Budget, and Appropriations in Congressman Hastert's office.

Senator Baucus? Then the Senator from Kentucky wants to make a statement about one of the nominees.

**OPENING STATEMENT OF HON. MAX BAUCUS,  
A U.S. SENATOR FROM MONTANA**

Senator BAUCUS. Thank you, Mr. Chairman. You have mentioned the four nominees that we are considering today, and I very much appreciate all four who are willing to serve. It is not easy. It is a lot of work. I want to thank all of you for making this commitment, and I welcome you to the committee.

As some may know, though, I am currently holding consideration of nominees to certain significant Treasury Department positions because of a Treasury rule change that makes it more difficult to export American agricultural goods to Cuba.

In the year 2000, Congress passed the Trade Sanctions Reform and Export Enhancement Act to encourage American agricultural products to export to Cuba. That law expressly forbade the executive branch from changing the export rules. But Treasury ignored that prohibition and the will of the Congress and changed the rule in February of this year.

Treasury changed the rule to make it more difficult for American farmers to export to Cuba. The previous rule had required cash in advance of delivery, a requirement consistent with international norms. The new rules require payment in cash in advance of shipment of the goods, and as a result of the change, American agricultural exports to Cuba have taken a nosedive.

In December of 2004, when Treasury first threatened to change the rule on American agricultural sales to Cuba, I promised ranchers and farmers in Montana that I would not sit idly by.

I promised that if Treasury made the change, that is, the change that they made, I would take whatever action was appropriate until I felt sure that agricultural sales to Cuba would continue. I feel strongly about protecting this market, for a lot of reasons, mostly because these are farmers and ranchers.

It is tough enough to make a living, and it just does not make sense to me why the U.S. Government should, contrary to the intent of the law, make administrative changes which have the effect of making it more difficult for American farmers and ranchers to export to Cuba.

Ambassador Kimmitt, I have great faith in your ability, especially in your ability to help us find a solution, given your experi-

ence in diplomacy and international matters, and just the strength of your intelligence and your experience.

Because of your Montana roots, I am also confident in your abilities to understand how this issue affects ranchers and farmers in my home State.

I might say to my friends on the committee that Mr. Kimmitt is a descendent of one of Montana's greatest sons and a friend to many of us, Stan Kimmitt, the former Secretary of the Senate under Majority Leader Mike Mansfield.

I have known Bob for a long time, and he brings a resume of significant accomplishments to the table. I will not name them all, but it is really amazing, all that he has done. Most recently, Bob has served as general counsel at Time Warner.

I look forward, again, Bob, to hearing from you, if not in this hearing, at a later date, on how we can solve the issue at hand, because I do believe that it has to be resolved, and resolved in a way that is consistent with the statute.

On another matter, as you may know, the Treasury Department formerly provided strong leadership in an effort to investigate terrorism financing. But now the administration team is made up of 19 offices run by the NSC, and this does not seem like a recipe for a winning strategy, frankly, all the different offices.

Many are saying that our effort to counter terrorism financing is faltering. I will not go into great detail, but this is something that this committee has looked at for some time. It is clear to many of us in this committee that this needs to be shored up very significantly. I very much hope you will provide fresh leadership to the Department.

I believe that the status at Treasury has to be strengthened. I think the Treasury Department status, in world and financial affairs, has faltered. I think it needs to be strengthened. I do not know why it has faltered.

My guess is, it is probably because the White House is controlling so much out of the White House compared with other administrations. If so, you are going to have to work very hard to restore the status of the Treasury Department so there is more policy in Treasury Department actions than politics.

I do not mean to denigrate the Department by saying much of the decisions by the Department are political. That is not my intention at all. But it is my intention to try to help shore up the status of the Department, because I think the Department must play a much stronger role in world financial international affairs for America's best interests, and I hope that when you are confirmed—and I expect at some date you will be—that you will help us accomplish that objective.

I will not, in great length, talk about the other nominees. Mr. Quarles, I know, has a distinguished record. Thank you, Mr. Quarles, for your willingness to serve.

Ms. Pack, I congratulate you on your position. As you know, the IRS is of particular interest to this committee. That goes without saying. And I have many concerns, frankly, about the agency, that is, concerns about technology, about service, and about enforcement.

I say that because the IRS has spent billions of dollars over the course of several years trying to modernize its 1960s technology. Billions. Unfortunately, it has had only limited success in upgrading its systems.

Another example. After making improvements in taxpayer service, the IRS appears to be reversing its course. It recently announced plans to shut down about 70 taxpayer assistance centers.

These centers provide face-to-face service for a lot of people, especially in rural parts of our country. They help poor people. They help elderly taxpayers who may not be able to use alternative sources of service, like the Internet. Not everybody is Internet-proficient. We need to make it easier for people to pay their taxes in the right way, not more difficult.

It also concerns me that the IRS is unable to accurately assess its productivity. A GAO report just released yesterday points out that the IRS needs to do more, and must have more sophisticated techniques to measure results in order to better plan the use of its resources, improve efficiency, and identify budget needs. It has to be brought up to date.

Perhaps most disturbing is the tax gap. The difference between what taxpayers should pay and what they do pay now has grown to be an estimated \$350 billion a year. Three hundred and fifty billion dollars a year.

Do you know what it has cost to finance the war in Afghanistan and Iraq since 9/11?

Ms. PACK. Not offhand, no, sir.

Senator BAUCUS. Less than that. I mean, I could give you all kinds of comparisons to dramatize why \$350 billion is such an alarming figure, let alone, people are just not paying their income taxes.

Yet, the IRS has conducted only limited studies to find out why the gap has grown and has no concrete plans for regular studies to keep track of the gap in the future.

Mr. Chairman, I have asked questions and pushed the Service many, many times on this point. I must say, it is astounding. It is absolutely astounding. We do not get any answers that give us any confidence that the Service is really actually trying to do something about it.

We get lots of words, like, well, the Tax Code is complicated. Yes, it is complicated. Lots of words like, Congress is part of the problem. Well, we are part of the problem. We get a lot of words.

We do not ever get a solid plan, strategic plan with benchmarks and dates to assess how well we are doing, how well we are not doing, and that kind of thing. It just does not happen. It is quite disturbing.

So, I would like to know what the IRS is going to do about this and how it is going to go about doing it, and how long it is going to take to do it, just a business plan.

Now, Mr. Kimmitt over there worked in the private sector. They have business plans in the private sector. We need a business plan in the public sector. I hope that Mr. Kimmitt at Treasury, and you, Ms. Pack, at IRS, can maybe get your heads together, or whoever it is that appropriately should get their heads together, to finally do something about this.



And Mr. Fromer, I look forward to working with you. I wish you very well. Your predecessor, John Duncan, is a great guy. We all know him quite well. We have the highest regard for him. Congratulations on your appointment.

Thank you, Mr. Chairman.

The CHAIRMAN. Yes.

Now, Senator Bunning.

**OPENING STATEMENT OF HON. JIM BUNNING,  
A U.S. SENATOR FROM KENTUCKY**

Senator BUNNING. Thank you, Mr. Chairman.

We are here today to hear from a number of individuals that the President has nominated to serve in various senior positions at the Treasury Department.

You are a distinguished panel, and I look forward to considering your nominations. It goes without saying that the positions to which you have been nominated are vitally important to this Nation and its economy.

I particularly would like to welcome Kevin Fromer to the committee today. I have known Kevin for a number of years. In fact, he has been working for Congress longer than I have been here. I got to know him when he was the Chief of Staff for Hal Rogers, my Fifth District Congressional colleague.

He was a great asset to Hal, and he has been a great asset to Speaker Hastert in his current position. I am confident he will be a meaningful addition to the Department of the Treasury as well, and I hope this committee will look favorably upon his nomination.

Again, I wish to welcome all of the President's nominees before this committee today and thank all of our panelists for their willingness to serve. Your experience and dedication will be needed in the years to come. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Bingaman had asked to speak. When he comes back, I will call on him then.

We will go now to several things we do here, and give you an opportunity to make an opening statement and to introduce family and friends who are proud of you. This is a unique occasion for you, and we welcome that. If you have a longer statement than the time that was allotted, that will be put in the record.

So, why do we not go in the order of having each of you introduce your family, and then we will go back to you, Mr. Kimmitt, to make a statement.

Mr. KIMMITT. All right. Thank you, Mr. Chairman. I am pleased today to be joined by my wife Holly and four of our five children: Kathleen, Robert, William, and Mac, each of whom has served either as a page or an intern in the Senate.

Also here are my brother Jay and my sister Judy, who between them have over 45 years of service in the Senate. If I could ask them maybe to stand up.

The CHAIRMAN. Yes. Please stand. Yes. Thank you. Thank you. Now, Mr. Quarles?

Mr. QUARLES. Thank you, Mr. Chairman. I am very pleased today to have with me my wife, Hope Eccles, and my parents, Ralph and Beverly Quarles.

The CHAIRMAN. Would you folks stand, please? Congratulations.

Now, Ms. Pack?

Ms. PACK. Yes. Mr. Chairman, I would be pleased to introduce my husband, Randall.

The CHAIRMAN. All right. Congratulations.

Mr. Fromer?

Mr. FROMER. Thank you, Mr. Chairman. My family is far flung around the country and my parents are taking a well-deserved vacation right now, so they could not be with us. I do have some friends and colleagues who joined me, and I appreciate them taking time out of their busy days to be here today.

The CHAIRMAN. All right. Thank you.

Now, Mr. Kimmitt, back to you.

**STATEMENT OF ROBERT M. KIMMITT, TO BE DEPUTY SECRETARY OF THE TREASURY, U.S. DEPARTMENT OF THE TREASURY, WASHINGTON, DC**

Mr. KIMMITT. Mr. Chairman, Senator Baucus, Senator Bunning, and members of the committee, thank you for this opportunity to appear before you today. I am honored to be President Bush's nominee to serve as Deputy Secretary of the Treasury Department, and I am grateful to Secretary Snow for his confidence and support.

If I could, just following up on what Senator Baucus said, I only regret that my late father, the former Secretary of the Senate and Secretary for the Majority, Stan Kimmitt, from the great State of Montana, is not with us today, for it was he who inspired all seven of his children, and now his grandchildren, to the noble cause of public service and a particular respect for the institution of the U.S. Senate.

It was 20 years ago this summer that I appeared before this committee as President Ronald Reagan's nominee for the position of General Counsel of the Treasury Department under Secretary Jim Baker. I had previously served as an Army paratrooper in combat in Vietnam, and later as a senior member of the National Security Council staff at the White House.

After my service at Treasury, I was Under Secretary of State for Political Affairs, and later, as you mentioned, Mr. Chairman, American Ambassador to Germany. In the 12 years since returning from Germany, I have worked as a banker, lawyer, and business executive.

If confirmed by the Senate, I look forward to bringing the perspective of these decades of public and private sector experience to my work at the Treasury.

The world and the Treasury Department are very different places than they were during my service in the Department 20 years ago, but the central role played by the Treasury Department as the administration's senior economic and financial department has only been brought into even sharper relief in the ensuing decades.

In addition to its internal responsibilities for tax administration and enforcement, financial management, and domestic finance, the Treasury Department plays a critical role in all three major inter-agency bodies of the executive branch: the National Security Coun-

cil, the National Economic Council, and the Homeland Security Council.

Whether the issue is Social Security, economic policy, or tax reform; international debt or foreign direct investment; terrorist financing or economic sanctions, the Treasury Department has an essential responsibility to ensure that these issues are carefully considered and coordinated within the Department and the inter-agency process prior to engagement with key external counterparts, beginning with the Congress.

If confirmed by the Senate, I look forward to helping ensure that the Treasury Department performs these essential tasks with the diligence and skill that are the hallmarks of the Department.

In that effort, Secretary Snow and I, and our colleagues, will be assisted not only by strong presidential appointees represented by the colleagues who appear with me today, but also by the dedicated and highly professional career civil servants who are, and always have been, the backbone of the Department.

Mr. Chairman, Senator Baucus, Senator Bunning, thank you again for this opportunity. If confirmed, I look forward to further such opportunities to interact with you. I would be pleased, of course, to answer any questions that you may have.

The CHAIRMAN. Thank you, Mr. Kimmitt.

[The prepared statement of Mr. Kimmitt appears in the appendix.]

The CHAIRMAN. Mr. Quarles?

**STATEMENT OF RANDAL QUARLES, TO BE UNDER SECRETARY OF THE TREASURY, DOMESTIC FINANCE, U.S. DEPARTMENT OF THE TREASURY, WASHINGTON, DC**

Mr. QUARLES. Thank you, Mr. Chairman, Senator Baucus, Senator Bunning, for the opportunity to appear before you today. I am honored that President Bush has nominated me to serve as the Under Secretary of the Treasury for Domestic Finance. I am grateful to have the privilege of your consideration today.

The role of the Under Secretary of the Treasury for Domestic Finance is to advise the Secretary on issues related to capital markets and financial institutions, government fiscal policy and operations, governmental assets and liabilities, and related economic and financial matters.

The Treasury Department is currently addressing some of the most crucial issues facing our country in each of these areas, and if confirmed for this post I would look forward to working closely with this committee and the Congress across this full range of topics.

My professional career over 2 decades, in both the public and private sector, has given me in-depth experience with the issues facing the increasingly global banking and capital markets, as well as the challenges of sovereign finance.

For nearly 4 years, I have served as the Assistant Secretary of the Treasury for International Affairs, where my responsibilities have included, among other things, advising on international aspects of financial regulation, the structure of sovereign funding markets, as well as macroeconomic policy, exchange rate policy,

trade and investment, and our participation in the IMF and the World Bank.

Before that, I began my service in this administration as U.S. Executive Director at the IMF, representing the United States on the IMF's board during a time of stress for the international financial system.

In the private sector, I was a practicing Wall Street lawyer for nearly 17 years, focusing on banking and financial matters. During that time I helped some of the world's premier financial institutions think through their approach to an increasingly integrated financial system, to take practical steps to prepare for that integration, and to create legal structures that increased the efficiency of financial intermediation.

Finally, this is not my first stint at Domestic Finance in the Treasury. I was also privileged to serve in the Treasury Department from 1991 to 1993 during the administration of the first President Bush, working with the team that proposed the modern statutory framework for this ongoing transformation of the financial system.

If confirmed for this position, I believe my service in the role of Under Secretary would benefit from all of these experiences. I also want to note how much it will benefit from the extremely able Treasury staff that it has been my great honor to serve with now in both the international and domestic areas under three different Treasury Secretaries.

I want to thank you again for the privilege of appearing before this committee. I want to thank Secretary Snow for the confidence that he has displayed in me by supporting me for this position, and I look forward to answering any questions you may have.

The CHAIRMAN. Thank you, Mr. Quarles.

[The prepared statement of Mr. Quarles appears in the appendix.]

The CHAIRMAN. Now, Ms. Pack?

**STATEMENT OF SANDRA L. PACK, TO BE ASSISTANT SECRETARY OF THE TREASURY, MANAGEMENT, U.S. DEPARTMENT OF THE TREASURY, WASHINGTON, DC**

Ms. PACK. Yes, sir. Chairman Grassley, Ranking Member Baucus, Senator Bunning, members of the Senate Finance Committee, thank you so much for taking the time to consider my nomination. I am honored that President Bush has nominated me to serve in this position. I also thank Secretary Snow for his leadership and support.

I would like to tell you a little bit about my background and why I believe that I am qualified for this position.

I am a certified public accountant. Throughout my professional career, including 12 years in public accounting, 2 years as Assistant Secretary of the Army for Financial Management and Comptroller, and 2 terms as chief financial officer for the Bush-Cheney Presidential Campaign Committees, I have demonstrated a commitment to the principles of sound financial management.

I understand the need for the principles and practices espoused by my profession, such as strong internal controls, segregation of duties, planning, budgeting, and reliable accounting and financial

reporting systems. These principles enable sound management and resource decisions.

If confirmed, while I will be serving in a new environment with the U.S. Treasury Department, I believe that my technical training and my previous work experience will provide the foundation needed for the challenge.

I look forward to learning about the U.S. Treasury Department and determining how the principles with which I am familiar may be applied.

Mr. Chairman, thank you again for bringing me before this committee.

The CHAIRMAN. Thank you, Ms. Pack.

[The prepared statement of Ms. Pack appears in the appendix.]

The CHAIRMAN. Now, Mr. Fromer?

**STATEMENT OF KEVIN I. FROMER, TO BE DEPUTY UNDER SECRETARY OF THE TREASURY, LEGISLATIVE AFFAIRS, U.S. DEPARTMENT OF THE TREASURY, WASHINGTON, DC**

Mr. FROMER. Thank you, Mr. Chairman. Mr. Chairman, Senator Baucus, and members of the committee, I, too, am very honored to be appearing before this committee and want to thank you for scheduling today's hearing.

At the outset, and as you have mentioned, I want you to know that the last person to hold this position, a gentlemen that you know well, John Duncan, has impressed upon me the tradition of collegiality and consensus that applies to this committee on a daily basis. If confirmed, I will approach my work with you and your staffs in that spirit, and with a goal of continuing that tradition.

After nearly 23 years of working with members of Congress and staff, I certainly understand and value the importance of an open and regular dialogue between the Congress and the executive branch. I further believe you cannot operate in this business without a good understanding of each other's objectives and constraints.

If confirmed, the job, as I see it, is to bridge those gaps in a straightforward fashion. I will obviously maintain fidelity to the policies of the Department and the administration, but I will work very hard to ensure that your views, priorities, and concerns are accurately conveyed and fully considered.

I pledge to be always available to you and your staffs, and to ensure that the right people within the Department of Treasury are responsive to your questions and interests.

I would not be here, of course, without the support of President Bush and Secretary Snow, to whom I am very grateful.

I also want to thank the two members of Congress with whom I have worked the closest over my career, Congressman Hal Rogers of Kentucky, and the Speaker of the House, both of whom have made it possible for me to participate in significant, memorable ways in the legislative process.

I want to thank the staff of the committee. They have been generous with their time and their courtesies to me in preparing for this process, particularly in the midst of other pressing business before the committee.

Senator Bunning, thank you for your kind words. I have enjoyed working with you over the years. You have done a tremendous job

for the State, and I look forward to working with you in this capacity, if confirmed.

With that, thank you for the opportunity to testify today. I look forward to any questions you may have.

The CHAIRMAN. Thank you, Mr. Fromer.

[The prepared statement of Mr. Fromer appears in the appendix.]

The CHAIRMAN. Now we go to the three standard questions we ask every nominee that comes before the committee. So I will read the question, and then I would ask, in order, for each of you to say how you stand on it.

First, is there anything that you are aware of in your background that might present a conflict of interest with the duties of the office to which you have been nominated? Mr. Kimmitt?

Mr. KIMMITT. No, Mr. Chairman.

The CHAIRMAN. Mr. Quarles?

Mr. QUARLES. No, sir.

The CHAIRMAN. Ms. Pack?

Ms. PACK. No, sir.

The CHAIRMAN. Mr. Fromer?

Mr. FROMER. No, Mr. Chairman.

The CHAIRMAN. Do you know of any reason, personal or otherwise, that would in any way prevent you from fully and honorably discharging the responsibilities of the office to which you have been nominated? Mr. Kimmitt?

Mr. KIMMITT. No, Mr. Chairman, I do not.

The CHAIRMAN. Ms. Pack?

Ms. PACK. No, sir.

The CHAIRMAN. Mr. Fromer?

Mr. FROMER. No, Mr. Chairman.

The CHAIRMAN. Mr. Quarles?

Mr. QUARLES. No, Mr. Chairman.

The CHAIRMAN. And lastly, do you agree, without reservation, to respond to any reasonable summons to appear and testify before any duly constituted committee of Congress, if confirmed? Mr. Kimmitt?

Mr. KIMMITT. I do, Mr. Chairman.

The CHAIRMAN. All right.

Mr. QUARLES. I do.

The CHAIRMAN. All right.

Ms. PACK. Yes, sir.

The CHAIRMAN. Yes.

Mr. FROMER. Yes, sir. I do.

The CHAIRMAN. And without your having to respond, I would like to add a personal addendum to the last question. One of the things that I find very difficult is to get letters answered or questions answered outside of a formal hearing. We just occasionally write a letter here or there.

I spend a lot of time on oversight, and maybe more often than not, getting answers is getting complete answers and not having to go back to the well several times to get the information that we need to do our constitutional job of oversight.

So, anything that you can do along that line not only within your area, but to promote an understanding within your respective de-

partment or other departments you might interact with, I would appreciate it.

I am going to start my round of questioning with Robert Kimmitt. Last week, Senator Baucus and I wrote to the President regarding the bid by China National Offshore Oil Corporation for Unocal.

As you know, CNOOC Limited is a subsidiary of China National Offshore Oil Corporation, which is owned by the Chinese government. Much of the funding for the bid is based upon government-subsidized loans by the government of China.

I understand from today's press report that the Unocal board of directors has endorsed the revised Chevron offer, which is set for final vote August 10.

However, I would still like to get your views on whether it is appropriate for state-owned enterprises to subsidize investment transactions to acquire scarce natural resources that are in high demand.

I would also appreciate any comments you might have about how you would approach such issues, should you be confirmed as Deputy Secretary.

Mr. Kimmitt?

Mr. KIMMITT. Thank you, Mr. Chairman. As a general matter, I think the international economy rests on three principles: free trade, free capital flows, and flexible currencies set in open, competitive markets.

That free flow of capital, meaning investment policies both in the U.S. and abroad that are open and reciprocal, I think, is a crucial element of our country's economic success and the success of the world economy, and it will be a particular priority for me if I am confirmed for this position.

Interestingly, Mr. Chairman, it was 30 years ago that the Committee on Foreign Investment in the United States was first set up. This was a full 10 years before the Exon-Florio amendment. You may recall that CFIUS was created out of a concern about petrodollars coming into the U.S. and being recycled. In the 1980s, we had concern about Japanese investment. Exon-Florio was passed.

I think that we have a good system in place now to look at investments by foreign companies into the United States. If, indeed, those national security concerns are raised, including some of the factors that you have put on the table, I think there is an inter-agency process, led by the Treasury, that will take those into account.

I would note, just from my personal experience, that it is not just China that both owns and subsidizes some of their major companies, both for critical resources and also for critical infrastructure.

A large part of the German telephone company, Deutsche Telekom, is still owned by the German government, even though they bought VoiceStream in the United States. There were announcements just this week about the final privatization of the German postal system, which is also quite active here.

I think those factors need to be taken into account, and I think the points that you raised in your question would be taken into ac-

count on an interagency basis if, in fact, a transaction of the sort that you described were to go forward.

But I think the key thing is that, when you are dealing in the national security area, when you are dealing with investments like this, it has to be looked at on a broad, interagency basis. Treasury has the lead on that, and I think it is a responsibility that we take quite seriously.

The CHAIRMAN. Also for you, I want to ask a question about the New Markets Tax Credit. I am concerned that that credit was passed by Congress to assist economically distressed areas.

As I review the Department's award of the credit, it appears to be going overwhelmingly to metropolitan areas, with only a small percentage to help rural America. In fact, I would note that Iowa has only received one grant, and Montana has not received a single grant.

I would ask for you to answer why rural areas have been forgotten by the New Markets Tax Credit, and more importantly, what steps can Treasury take now to make sure that rural areas are on an even playing field in terms of receiving the credit.

I appreciate your answering to the extent you can today, but I would like to have a complete answer in writing.

Mr. KIMMITT. Mr. Chairman, I will follow up with some detail. [The information appears in the appendix.]

Mr. KIMMITT. I was able to look into this briefly. As you know, it was just last Friday that the fourth round of the New Markets Tax Credit competition was opened.

Information that came to me suggests that there have been grants into 38 States, but the grants play out in 48 of the 50 States. But it is quite clear that this is a program that is aimed at low-income areas both in rural and in urban areas.

I think that they need to be given an equal opportunity to compete for grants under this particular program, or I should say tax credits. It is certainly something I would be glad to look into and get back to you with some detail, Mr. Chairman.

The CHAIRMAN. Thank you.

Before I go to Senator Baucus, then kind of a question of priorities. You can list several priorities if you want to for you as Deputy Secretary, but I would especially ask you where terrorism financing fits in in terms of your work, because I think it is unfortunate that you need only look at the headlines to realize how dealing with terrorism financing still is a very major problem.

Mr. KIMMITT. Mr. Chairman, I see the role of a Deputy Secretary—which, as you know, is not laid out in any detail in any law—fundamentally as being to support the Secretary in carrying out the President's agenda. I think that means to work to help to make sure that the Department is operating well, and to back up the Secretary and his priorities.

But Secretary Snow has made clear to me that, if confirmed, he would like me to take particular interest in a number of areas, and I can assure you that terrorism financing will be one of those.

I have actually reached the point in my life that I bring a little bit of perspective to this hearing, in that, when I was General Counsel of the Treasury, in 1985 was when we really started to focus on terrorism from a financial perspective. And you may recall



the murders at the Rome and Vienna airports carried out by agents of Moammar Khaddafi.

We put in place full-scope economic sanctions and an asset freeze basically to try to keep him from getting the money that we froze, both in the United States and abroad, and we got our first real glimpse into the terrorism financing network. I am not sure in the ensuing years we did perhaps as much as we could have to have emphasized that element of the fight against terrorism.

I think with the new structure of the Department, having both an Under Secretary and two Assistant Secretaries dedicated to this task, Treasury will play its important role in the interagency process, and I personally intend to give a real priority to this issue.

The CHAIRMAN. Thank you, Mr. Kimmitt.

Now, Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

Bob, how can I explain to American farmers and ranchers that we have suddenly decided, at a time when farmers are facing pressures from the budget axe and the shrinking agricultural trade surplus, that their government is now going to restrict their access to a promising new market and create new hurdles?

Mr. KIMMITT. Well, Senator, as you said, I am the grandson of a Montana rancher and farmer, and therefore I understand very much the point that you are making.

I think, fundamentally, when it comes to economic sanctions generally—we are talking Cuba here in particular—the idea is to put as much pressure as possible on the intended target, in this case Castro, while minimizing the effect on U.S. farmers, ranchers, or other business people.

I think Treasury is trying very hard to balance those two in light of both the policy on the one side and legislation on the other. We had a good conversation about this yesterday. I think we may have some differences on the policy.

I think what I would say to those farmers and ranchers is, the government will work with you, both the legislative and executive branches, to make sure that any adverse effects on you that derive from this policy are minimized, if not eliminated.

Again, as I said to you in our earlier conversations, I think we could debate the policies. As you know, we are part of an interagency team that is involved in the policy formulation process.

Senator BAUCUS. Right.

Mr. KIMMITT. But in this regard, we execute the policy. I think what I would like to focus on is a way, again, to discharge the policy, but not have the effects visited on the farmers.

Senator BAUCUS. As I know you know, Montana farmers and ranchers come back and say, well, Senator, we are the only country that is not allowing agricultural sales to Cuba, virtually, now, with this new change. No other country has this prohibition. While we cannot ship our goods to Cuba, other countries can.

That is what I hear. So, it is hard telling them that we have a policy that says no to American farmers, whereas other country's farmers can go ahead and ship their agricultural products to Cuba.

I would like to ask you a little bit about terrorism financing, based on your experience. As you know, with the creation of the Department of Homeland Security, it seems that law enforcement

apparatus to detect and combat various financial crimes has now been disassembled and scattered.

When you take over this job, whenever you do, I urge you to take a good, hard look at that and try to help bring that back into focus so that we can get the job done. Now, everything is scattered. There is also a sense that, over at OFAC, we have lots of people over there looking at Cuba. They are not looking at terrorism financing around the world.

Is there terrorism financing in Cuba? I do not think so. I have asked questions, and without revealing confidences, it is my opinion, very strongly held, that there are no signs of terrorism financing through Cuba, although a large portion of OFAC's resources are currently dedicated to that subject. But I urge you, for our country, to take a good look at that when you are confirmed.

Competitiveness. What do we do here? No country in the sweep of history is always at the top of the heap—Greeks, Romans, U.K. Our country is what, 200-some years old? There is no assurance that we are always going to be number one economically.

We know the threat from China and from a lot of other countries. We know the world is becoming virtually flat, with advances in technologies and communications technologies.

You mentioned capital, free flowing, free trade, et cetera. But the victory goes to the swift. I have forgotten the exact proverb. I do not know if you have read the book, *The World is Flat*, by Thomas Friedman. I would urge you to read it. He, in that book, explains this phenomenon.

It quotes a proverb, which is translated into Chinese. It is on the door of a Chinese factory. Essentially, it is the effect of, the gazelle knows it has to run fast in Africa. If it does not run fast, it could get eaten by a lion. The lion knows that if it does not run fast, it is going to starve. So, we have all got to run fast so we do not get eaten up, and so we can eat.

So what do we do in our country? I sense that this country, and our administration specifically, is not really focused on this. We are too focused on the short term. I am not going to draw this out too much, but there is another book that has made a big difference to me.

Paul Kennedy wrote a book about civilizations and countries, pointing out that generally civilizations and countries falter and are defeated not from advancing armies from without, but rather internal decay from within.

The Chinese, you know as well as I, are extremely aggressive and entrepreneurial. They are loaded for bear. The Japanese are a little bit different culture. Other countries, such as India, are working very aggressively. The Finns. There are lots of different peoples around the world that are very aggressive.

I do not know if you saw the article in the paper a few days ago. I think the OECD rates Finland as the most competitive country in Europe. Finland took the bull by the horns about 15, 20 years ago.

They were faltering because, after the Cold War, they had problems in their economy with the Soviet Union's collapse. So, they got down to business, made some sacrifices. I do not need to explain to you the degree to which Ireland has turned its economy around.

So, what do we do in this country? What should we do?

Mr. KIMMITT. Well, I think I would agree with every point you made, Senator, except the fact that the administration, perhaps, is not paying attention or given a priority to competitiveness.

In preparation for the hearing, I had a chance to read speeches, starting with the President's speech last November, through a number that Secretary Snow has given, and then most recently some of the statements made by the President and others at the G-8 summit, which Randy Quarles participated in just recently in Scotland. I think competitiveness is a very high priority for the administration, both the White House and across a range of the Departments.

I think the answer is, number one, you have to get your house in order at home. That is, we have to address the issues in front of us, ranging from deficits, through education, tax reform, and Social Security reform, to make sure that we remain the beacon that we are today for economic hope and opportunity.

But at the same time—and we cannot do these serially, we have to do them together—we have to strive for those open markets, those free capital flows, those flexible currencies that I discussed further. Many of those we do on a bilateral basis.

Quite a number we do in smaller, but important groups like the G-7 and G-8. But then more broadly, I think in the World Trade Organization and elsewhere, we have to make sure that there are rules set that level the playing field to the greatest extent possible for both our economy, and the economies elsewhere in the world.

So, again, I think it is a combination both of making sure that we are strong at home in order to be strong abroad.

Senator BAUCUS. Right. That is the goal. I do not think there is much disagreement there. That is the goal. Maybe various people in the administration have given those speeches, but there is not a lot of action.

There is not a lot of action. For example, with enforcement of trade laws, intellectual property violations. You know that other countries are ripping us off. There is a lot of talk about enforcing the trade laws, but not a lot done about it. I do not know the reason, but not a lot is being done.

There is very little effort on the part of the U.S. Government, the USTR's office, to enforce trade laws and prevent other countries from taking advantage of the United States in trade agreements that are currently on the books. That is pretty clear.

There are other areas. For example, I think we are not competitive, in part, because we have such high health care costs. It is very hard for GM and other companies to compete when they have such high legacy costs.

The average GM worker gets paid 55 bucks an hour. In China, car manufacturers are putting cars onto boats in Hong Kong, Chinese cars. Chinese cars are going to Europe. They get paid \$1.50, \$2.00 an hour.

Part of that high \$55 an hour is because their health care costs are so high. We pay twice as much on health care per capita in America as does the next highest country. Twice as much. Are we twice as healthy? Doubtful. But we have unnecessarily high health

care costs in this country, and that is not being addressed. I know it is difficult. I know it is very difficult. It is not easy.

But I would just urge you, in your new position, whenever you finally get the job, to keep this in the back of your mind so that you get this administration to do something—not just talk, not just speeches, but do something about competitiveness. It is for the sake of our kids and our grandkids.

Stan Kimmitt, today, would really be worried about this. Really worried, your father, whom I knew very well. You are right. He instilled such a sense of public service in your whole family, it is wonderful. All of you, your whole family. I do not know a family like it.

I just think it is that kind of sense of public service and dedication to what is best for the United States' people that is going to have to be more widely felt and shared, with more leadership than currently exists.

Mr. KIMMITT. I appreciate those comments, Senator, especially about my dad. I guess I would just pick up on one point. This comes from, as the Chairman said, my service at Time Warner.

I think the administration not only has talked, but also acted, in the area of intellectual property protection. Not only are there very significant intellectual property protection provisions in the recent Free Trade Agreements—Singapore, Chile, and Australia—but moreso than perhaps any other government, we have recognized that good law is only a starting point, that you have to commit the enforcement resources to this effort. The Justice Department, over the last 18 months, working with industry and others, has taken some real steps.

As you know, both Ambassador Portman and Secretary Gutierrez were in China just last week and met with the Vice Premier, the former Commerce minister who has the lead on intellectual property protection.

The Chinese, for the first time, really put out some metrics against which to judge how they are doing in this particular area. So, I think that the rhetoric has been followed by action in this regard.

IPR is a funny business. I would actually tell you that the film studios would probably suggest that one of the countries where they have the biggest problems on intellectual property protection is Germany.

Germany has very weak laws, no enforcement resources committed against the pirates there, and it is a huge market, where the companies are losing tens of millions of dollars.

China and Russia, where a lot of the fabrication takes place, are fairly small markets by comparison. You need the law enforcement there, but you also need it in the developed countries.

I think the administration has recognized this, and working with the Congress, including with this committee last year on the FSC/ETI bill and so forth, is trying, I think, to get a handle on that.

Some of the other points you raised, I cannot disagree with. Certainly in terms of health care costs, in terms of enforcement of trade agreements, I would let Ambassador Portman answer that. But having worked with Rob Portman for 12 years, I cannot imagine that he would not faithfully discharge his obligations.

Senator BAUCUS. My time is up. I am not talking about Rob Portman, I am talking about the U.S. Government. Rob Portman is told what to do. I mean, he gets his orders from higher up much of the time.

You are going to be one of those higher-ups he is going to be talking about, and there are going to be other higher-ups that you are going to be talking with. Karl Rove, for example, makes a lot of these decisions, in my judgment, because it is political. I would just urge you, very, very strongly, as part of the team, to make sure the team is working together so we can do something about all this.

Thank you.

The CHAIRMAN. The Senator from Kentucky?

Senator BUNNING. Thank you, Mr. Chairman.

Mr. Kimmitt, as I listen to the discussion taking place here today, I might conclude that Cuba is a great place to do business. But I have researched the issue a bit, and I find that others across the world have not found that to be the case.

Castro cannot be trusted. He cannot be trusted to treat his people with dignity and respect, and he cannot be trusted to make good on his obligations. Perhaps some of my colleagues would like to ask the French, Spanish, the Japanese, South African, Chilean, and the Canadian governments about how good a credit risk Mr. Castro really is.

Only 3 years ago, according to *The Economist*, Fidel Castro's government defaulted on some \$500 million in trade credits. The truth is, Cuba is not just a bad place for individual freedoms, it is a very risky place to do business.

Presidents from both parties have seen the wisdom in not allowing American businesses to be scammed by Fidel Castro, who has defaulted on payments, brutalized and mistreated his own people, and finds his country listed on the State Department's list of countries that sponsor terrorism.

Mr. Kimmitt, with these facts and more in mind, can you please explain to me why the Treasury Department feels it is wise to insist on payments in advance from the Cubans?

Mr. KIMMITT. Senator Bunning, I think you just laid out quite a number of the points that undergird the policy position that is taken by this administration, and as you indicated, has been a fairly consistent bipartisan position over the decades that sanctions have been in place.

I think, with regard to payment in advance, the Treasury Department, when asked the question by a number of banks who were involved in the process, took a very close look at this issue and decided that payment in advance meant that in the normal course of commercial trade, that payment should be received before the grain or other products were shipped.

I do not know, because I was not in the government at the time, how many of the factors that you mentioned about Castro's creditworthiness, or lack thereof, factored into that decisionmaking, but I think the legal analysis, they felt, was pretty straightforward.

I have had a chance to look at the Congressional Research Service piece that Senator Baucus has referred to. They take a different position on that legal interpretation. I cannot say that theirs is un-

reasonable, but neither did they say that there was anything illegal in the position being taken by the Treasury Department.

Again, while I do not yet speak for the Treasury Department and cannot until I am confirmed, I think the Treasury Department is doing its best to implement the policy consistent with the legislation that was passed in 2000 around agricultural exports, and felt that that interpretation of payment in advance was the one most consistent with international practice.

Senator BUNNING. Thank you.

Ms. Pack, how do you feel about the budget development process at the Department? Is it currently working? Do you have any suggestions for ways to streamline that process?

Ms. PACK. Senator Bunning, I really do not know a lot about the budget process at the Department as yet. If confirmed, obviously, that will be a priority because that is the key component of my future responsibilities. I pledge to you to give it my best in terms of determining where we can make improvements and streamlining it and making it more effective.

Senator BUNNING. Well, if you use general accounting principles and stick to it, I am sure that we will do fine.

Ms. PACK. That will go a long way.

Senator BUNNING. Yes.

Kevin, you have obviously worked over the years with the previous occupants of the position that you have been nominated for. What do you anticipate will be your biggest challenge, if you are confirmed for this position?

Mr. FROMER. Senator, I anticipate a number of challenges in order to do this job effectively. I have devoted my professional career to working for the Congress, and in particular in the House.

During that time I have had the opportunity to work closely and develop friendships, in fact, with a number of individuals on both sides on a variety of issues I have worked on that are relevant to much of the work that the Treasury Department undertakes, and its broad portfolio.

I believe it is my obligation to be responsive to the Congress, to this committee, to each and every member here in receiving and solving problems, taking requests, taking ideas and making sure that they are fully considered and managed properly. I know that will be a full-time job in view of the number of priorities.

Senator BUNNING. With all those good guys and gals up on this committee, it will be an easy job.

Mr. FROMER. I fully anticipate that will be the case, if you say so. [Laughter.]

Senator BUNNING. Mr. Quarles, as you know, the cost of regulatory compliance is becoming a bigger and bigger issue for banks, especially small banks who have a much harder time absorbing the cost than larger banks.

Senator Crapo, my partner who is missing today, has been a leader on this issue in the Banking Committee and is trying to put together legislation to provide regulatory relief for financial institutions. Do you have any suggestions how we can lessen the regulatory cost on small banks?

Mr. QUARLES. Well, I think that the issue of regulatory burden is one that the Department, as a policy matter, needs to be very

sensitive to. It is something that I have worked at in my previous position in Domestic Finance.

While in my current responsibility in the Treasury it has not been something that I have worked on, I am looking forward to working with this committee to address exactly that issue. I think that regulatory compliance costs are something that need to be an integral part of the thinking in determining an appropriate regulatory framework.

Senator BUNNING. We have a problem. When we have money center banks and we have the \$300 million bank, the community bank that sits right down the street from where I live, the regulations do not vary much for those kinds of banks. The cost of doing business for that smaller bank is really out of bounds to comply with the same paperwork that the money market banks can do with so much more ease.

Mr. QUARLES. Yes. Obviously, we need to be sure that the goals of regulation are being achieved, and the goals of regulation will apply to small, as well as large banks. But I definitely think that we need to be sensitive to the cost and to take that into account as regulatory frameworks are created.

Senator BUNNING. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Now we go to Senator Wyden, then Senator Smith.

Senator WYDEN. Thank you very much, Mr. Chairman.

I want to begin with you, Mr. Quarles. I think you are aware that when Secretary Snow came to the committee to discuss China, I asked him about the matter of reviewing the CNOOC deal and essentially made the argument that, for those of us who consider ourselves free traders, I think it is a no-brainer: you use the tools that are out there. Certainly, to not examine this transaction raises a question in my mind about whether Exon-Florio is meaningless.

So, what I want to ask you first—and this will not be the last of these kinds of transactions; I think when you look at China and what is ahead, my guess is, this will be the first of many such proposals. I would like to ask you, for purposes of this question, to set aside this proposal altogether, set aside everything about Unocal and Chevron, and the like, and give me what you think ought to be a set of principles, a set of approaches that you think are appropriate in terms of dealing with these state-owned kind of operations.

I want you to set aside this particular deal and I want to see if all of you, and particularly given the fact that you are going to chair this group and you are going to get a lot of these transactions, if you have done some thinking with respect to what kind of principles ought to be applied when you have all of these proposed transactions come in front of you.

Mr. QUARLES. Well, I think that the general principles that apply, the importance of free trade and free capital flows, the importance of those principles to our own economic growth and economic security that Mr. Kimmitt identified in response to a similar question, are where we begin.

I believe that it is possible to preserve and to prosecute those principles at the same time as protecting our National security in the broadest sense, and that the Committee on Foreign Invest-

ments in the United States, as it operates under the Exon-Florio amendment, is able to do that because it brings to bear on any particular case that is brought before it all the various areas of expertise of the executive branch and the various equities of the executive branch.

So, in the context of any of these transactions, if there is a concern to our security—and I would define that in the broadest sense, and the committee operates with it in the broadest sense, then the committee is well placed to consider those concerns and to develop ways to address them.

With respect to state-owned companies, your specific question, I do think that there is reason for looking particularly closely when it is a state-owned company that is making an acquisition, because they operate under different conditions than a company that does not have access to the resources of a state.

But again, the framework that the Congress has created through the Exon-Florio amendments and the way that CFIUS operates under the Exon-Florio amendments, allows the Federal Government to consider those issues as well in the context of any future transaction and address them appropriately.

Senator WYDEN. That is some statement. It is going to take me a while to dissect it. Suffice it to say, this is something I am going to ask you all about again, because I think we are going to have a lot of these transactions. We are going to need to have some set of core principles that are going to guide us. I understand it is coming at you cold.

Let me ask you, now, some questions particularly with respect to what you are dealing with on this particular issue. Now, Unocal currently has a stake in Colonial Pipeline, which delivers fuel to terminals in 12 southern U.S. States and feeds the Strategic Petroleum Reserve.

If the Chevron bid falls through and CNOOC renews its bid for Unocal, what would be the national security implications of this transaction, in your view, with respect to the Strategic Petroleum Reserve?

Mr. QUARLES. Senator, as you know, the Congress, in establishing the legal framework under which these transactions are reviewed, included extremely strict confidentiality provisions that limit the ability of anyone in the executive branch or the government to publicly discuss any of the details of a transaction that may or may not be before the committee.

Those confidentiality provisions have criminal penalties attached to them, and as a consequence, it is not possible for me to address the specific transaction.

Senator WYDEN. What are the national security implications? I am not asking you to get into the terms of the transaction. What are the national security implications of it? That is a policy question. Strategic Petroleum Reserve. That is our country's insurance policy.

Mr. QUARLES. I think that, again, in the context of a specific transaction, it is not practicable or possible to really address that question in a way that is meaningful under the confidentiality limitations of the Exon-Florio Act.



What I would want to stress is, that if a transaction were ever to become ripe and come before the committee and be considered, we have in the past, and it is consistent with the confidentiality provisions for us to come up and provide briefings to members of Congress about the thinking that has gone into the decisions of the committee. We have done that in the past, and we will certainly do that in the future. Those briefings can be classified if necessary, depending on the nature of the information.

Senator WYDEN. It is not a classified question. It is about the implications to the country's insurance policy. I am not asking for anything proprietary or confidential.

I am going to try one other area and we will see how you deal with this. If for some reason Unocal does not consummate the deal with Chevron, do you believe the Committee on Foreign Investment in the United States can conduct a thorough review and reach a conclusion on the national security implications of the CNOOC bid for Unocal within 30 days, or do you think the proposed transaction is going to require 45 days or longer?

Mr. QUARLES. Again, I just think that it would be inappropriate for me to address the specifics of a particular transaction. But I can say that if a transaction comes before the committee, the committee can, in the timeframe that is allotted under the statute, including both the 30-day review and a 45-day investigation period if the review determines that that is necessary, that it can address the national security questions that would be presented by a transaction.

Senator WYDEN. I am just going to say the same thing to you that I did to Secretary Snow. I think, for those of us that are free traders, you make our job tougher by not being responsive to these questions. What I am interested in is making sure that we use the tools on the books.

I started off by asking you the most general possible question. In fact, I said I was not even going to relate this to the deal in question. I just do not think the answer was very responsive and forthcoming, and I think your positions do damage to the cause of those of us who want to prosecute the cause of free trade. I believe to have any credibility with our constituents, we have got to show the government is using the tools it has. I hope we will see more clarity on this in the days ahead.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Smith? Just in case Senator Smith gets done and I am not at the desk, would you please stay at the table? I have a couple of more questions I want to ask, but I have got to take a phone call, hopefully from another member, in just a few minutes.

Senator Smith?

Senator SMITH. Thank you, Mr. Chairman. I came here to ask a few questions, but specifically to speak on behalf of Kevin Fromer. I think I have had dealings with most of the nominees, and I could speak well of each of them, and think well of each of them.

But I want to give a special endorsement to Kevin, because I have known him since I first came to Capitol Hill, but, frankly, even before that, because, while Kevin is a Virginian, he has many friends in Oregon. We claim him as an honorary Oregonian. His

best friend, I believe, is an Oregonian, who happens to be my State Director, Gary Timchuck.

Kevin is highly qualified to work in Legislative Affairs. I first met him when he was the Chief of Staff to Hal Rogers, and, later, when he was Senior Policy Advisor to Speaker Hastert, he was very helpful to me in understanding that side of the Hill. So, Kevin, I heartily endorse your nomination and look forward to casting affirmative votes on your behalf.

But a question on the issue of trade. It is my own feeling, with respect to China—and frankly, my observation since being here—that the more the markets work between China and America, the more unlikely there are to be military confrontations.

It seems to me that the free market on Unocal is in operation, and that the military calculation is a different one, that we simply need to be prepared to defend our interests and our allies in that area.

I wonder if any of you would have a comment. Is that strategy appropriate? How would you advise me on considering the Unocal issue?

Mr. KIMMITT. Well, Senator, I would just say that the concept of national security, I think, is a broad-gauged one. In my view, it is the summation of our foreign, defense, and international economic policies, resting on a strong intelligence base. When you deal with a relationship as important and as complex as China, I think it is very difficult to look at any issue in isolation.

I think it has to be looked at in that composite that I just described. As Randy Quarles mentioned, in investment terms, whether it be China or elsewhere, there is a 30-year-old process and a 20-year-old statute that lays out specific criteria that we have to look at at the Treasury Department on an interagency basis to make a determination of whether the national security interests of the U.S. are implicated by a particular investment.

But I think, stepping back, I said before you came in, whether it is China or anywhere else, at the end of the day, we all benefit from free trade, free flow of capital, and flexible currencies.

I think that my own view is that we should come to investments, foreign direct investment in the United States, leaning forward, seeing that that kind of investment is beneficial to our National interests, except in those limited cases where the national security is implicated, and we have a process to take that into account.

Senator SMITH. I guess the basis of my feelings, the predicate of my question, stems out of the incident that occurred when President Bush was first in office, and one of our surveillance planes was knocked down.

I remember then serving on the Foreign Relations Committee, and Colin Powell coming to us in, I think it was, a closed session. He pleaded with us to watch our words, not escalate the problem rhetorically, because what was happening in China was a great debate between their industrialists and their militarists, and that if we were a little bit patient, the industrialists would win the debate.

In fact, I think he even represented to us, we already have a deal to bring the plane out, but just do not complicate it. Ultimately, it was an 11-day stand-off. The people and plane came back, and a

very dangerous situation was defused. But in my own view, if I am interpreting it correctly, it was the need of the Chinese of America that ultimately allowed their military to accede to their commercial interests.

Is that a fair interpretation of that incident?

Mr. KIMMITT. I was not in government at that time, was not watching it as closely as you. I would certainly defer to Secretary Powell—or his successor now, Secretary Rice—with regard to a diplomatic strategy toward China.

My own feeling, however, is that China is going through a truly historic transition, and even transformation: leadership, economy, society. We need to be very closely engaged with them across the breadth of the relationship.

I think that there are times when things are better said in private, whether that be in the privacy of a committee meeting room or a meeting room at the State Department. There are other times when it is very appropriate to be public.

I think weighing those two is something that does require precisely what seemed to happen in this case, and that is, at a moment of crisis with an important country like China, the Secretary of State reached out, in this case, to the Foreign Relations Committee.

I think that is an example of good government, especially when it comes to a country like China, because we have to send a consistent message to them and that has to be a message of consistency within the administration and between the administration and the Congress to the extent that we can.

Senator SMITH. I do have, as I think the record will reflect, a record of voting for trade agreements and believing in the power of markets to improve lives for all parties.

But I do have to say that one of the things that disturbs me when I go abroad, whether it is to Russia, to Morocco, recently, and certainly to China in the past, is the wholesale theft of American intellectual property.

I have voted against the duty measures that are just arbitrarily pulled out to impose on China, thinking those counterproductive. But I wonder if any of you would care to comment on an idea, and frankly even some legislation I am drafting, that would simply quantify what is being stolen, and the sum of that would then be the duty, so that we can get them more engaged in enforcing the commitments they have made to protect American private property, and intellectual property, in particular. It does seem to me that it is hard to argue against that.

I mean, they have promised to protect our intellectual property. It is not happening. There has to be some mechanism by which they have an interest in holding and keeping their agreements. It seems to me that a duty that was equal to the amount of theft would soon transform their conduct into being consistent with their treaty agreements. Any of you care to comment? A bill soon to follow. [Laughter.]

Mr. KIMMITT. Well, if confirmed, obviously, I will participate with both those on the panel and others in coming up with a response to any bill of that sort. I guess my comment on IPR protection, a subject that you and I have discussed many times in my Time War-

ner capacity, is that I think this is a crucial element to American competitiveness and success abroad. You have to signal to your young entrepreneurs that you are going to protect their ideas, that you are going to protect their work product.

You are right, there has been greater attention paid to this. We are seeing it in more and more bilateral free trade agreements, in the Doha Round. Both Bob Zoellick, and now Rob Portman, have made this a very clear priority.

Therefore, we have to get it institutionalized bilaterally and multilaterally, but then people have to commit the enforcement resources against the problem. It was just last week in China that Ambassador Portman, Secretary Gutierrez, and Madam Wu, the former Minister of Trade who is now the Vice Premier and has the brief on IPR, came out with what sounded to me like the most specific things the Chinese had said in terms of measuring them against their commitment to shutting down IPR, whether it be filmed entertainment products, music, counterfeit goods, or counterfeit pharmaceuticals. It is a major problem.

By the way, it is a problem for them. A company like Time Warner does its overseas investment primarily in countries that respect the laws. Why would we put money into a country where the product that we are producing is going to be ripped off right away?

Therefore, if you take a look at the investment that filmed entertainment companies make, it tracks very closely with countries' respect for intellectual property rights. They make "Lord of the Rings" in New Zealand and "The Matrix" in Australia; "Harry Potter" in the U.K.

There is a reason for that, because those countries have good laws and they enforce them. I think the message to the Chinese, the Russians, and others is, this enforcement is not just to our benefit, but it is to yours.

In terms of measuring the loss and the cost, as you know, the Motion Picture Association does quite a bit of that, has quite a bit of data on that. They come out with their annual report. They can give you that at any particular point.

I guess what I would want to look at very carefully, if a law were thrown into the hopper, is to make sure that we do not spend more time analyzing than solving the problem. Very often, when you ask for reports and analyses and the rest, inside government, that is where people focus their attention.

I think most of what we need to do is external, and that is a combination of the private and the public sectors explaining to these people that it is in their interests, as well as ours, for them to respect these laws.

Senator SMITH. Well, thank you, Mr. Chairman. Thank you for your responses. To all the nominees, welcome. We are anxious to support you.

Kevin, I am particularly gratified to see this well-deserved promotion. So, thank you, sir.

Mr. FROMER. Thank you.

The CHAIRMAN. I would tell the staff, if the Senator calls me that I was hoping would call back, do not interrupt me right now.

First of all, commentary on sensitivities about China. I am not going to ask any questions about this, but I think we are too con-

cerned about these sensitivities. China brags about being a 5,000-year-old society, but somehow they do not like to be criticized at all or asked questions at all.

The example of a mature society is the United States, and we are only 200 years old. My gosh, we welcome the opportunity to be questioned. We welcome the opportunity to defend any public policy we have. We are so sensitive about that.

The more things we get out in the open, the better off we are. They become a member of the World Trade Organization. That is admission to the world community of nations. If they are part of the world community of nations, they have got to act like an adult society, not some newborn baby.

I will give you an example of something that is a perfect example of how they are so sensitive about stuff that does not mean anything. Every other year since 1986, I invite embassies' personnel—and most often the ambassador—to visit Iowa. This year, it is August 15 to 19. Seventy-five countries are coming this year to tour 18 communities in my State.

We always invite China, and we always invite Taiwan. I have called this, for 20 years, the Ambassadors Tour. I could call it anything I want to, but it just sounded reasonable. You take people from the embassies, it is an ambassador's tour.

Well, somehow, China will not come if Taiwan is involved because Taiwan's representative is a representative and not an ambassador. Now, understand, this is not an official mission of the U.S. Government. This is an idea of one Senator to promote international trade for my State. Taiwan trades with Iowa. China trades with Iowa.

They cannot be mature enough to sit on the same bus with somebody from Taiwan because I might call it an ambassador's tour, and somebody from Taiwan cannot be an ambassador. So, to heck with China. If they do not want to come, do not come. But do not act like a bunch of babies in the process.

We are too concerned about the sensitivities of a mature nation, 5,000 years old. Are they going to grow up and be a member of the world community of nations or not? I think we ought to show the lead of what a mature nation is all about. I think we lend credence to their position by being too sensitive about their position.

I would like to ask about whistle-blowers, Mr. Kimmitt. Several months ago, I wrote to Secretary Snow about the need to make the whistle-blower reward program at the Internal Revenue Service really work.

The Finance Committee has heard testimony, and my office has received complaints from many individuals, that the whistle-blower reward program at the IRS is not effective. It is clear from the False Claims Act that encouraging whistle-blowers can bring real benefits to the Federal Government.

The False Claims Act has brought in billions of dollars to the Federal Government. While the False Claims Act does not apply to taxes, the Internal Revenue Service already has very broad authority to implement a program that can give whistle-blowers a real incentive to assist the IRS in its work of going after tax shelter promoters.

I would like your commitment to personally ensure that the Treasury puts into place a real and effective program to encourage whistle-blowers to blow the whistle on big-time tax fraud. I would like you to provide me a date-certain when that can be done.

Mr. KIMMITT. Mr. Chairman, if confirmed, I will certainly look into this issue. I do know that in response both to your letter, meetings, and conversations with your staff, a working group was set up inside Treasury among the IRS, the Office of Tax Policy, and the Office of Legislative Affairs to look at the current program to see what additional administrative improvements could be made.

I do not have the details on that, but I will certainly pledge to you to look into this and come back to you and your committee colleagues on this.

The CHAIRMAN. The success of the False Claims Act amendments that I got passed in 1986 are so overwhelmingly positive and speak for themselves, that I do not think we have to worry at all that it would bring in lots of money to the Federal Treasury if we could get a like program instituted, which the Treasury Department has the authority to do.

I would like to ask Mr. Quarles: Section 312 of the PATRIOT Act requires financial institutions in this country to exercise due diligence when opening and operating correspondent accounts for foreign financial institutions and private banking accounts for wealthy, non-U.S. individuals.

It has been almost 4 years since passage of the PATRIOT Act, and yet the due diligence regulations have never been issued. I would like to know why the due diligence regulations have not been issued. I would like to have you tell me when the final regulations would be issued.

In addition, I would seek your assurance that the final regulations will be comprehensive and strong enough to stop terrorists and criminals from misusing our financial system.

Mr. QUARLES. Well, Senator, thank you. That is an important issue. My understanding is that those proposed regulations have been given now to the regulators in the process that has been set up for the development and issuance of regulations, so that process is moving forward, and moving forward in a deliberate fashion.

I have not been given to understand that there is a specific time. I would be reluctant to say that there is a specific time when that process will be complete, but it is definitely something that I know that the Department is very aware of, very eager to move forward on so that the regulation is complete, that it is now with the regulators for review.

If I am confirmed to this new post, it is something that would be a very high priority of mine to ensure that the process is completed and that the regulation, when finished and final, is adequate.

The CHAIRMAN. A month after September 11—or maybe even 2 months, but shortly afterwards—one of the main points of our administration was that we were going to shut off the money line of terrorism, and by that, shutting down terrorism.

We are still dealing with the details about doing more in that direction. It seems to me, if we would put the same effort into shut-

ting down the lifeline of terrorism, which is their money supply, like we do militarily, we would be further ahead in this game.

I would like to ask my next question of Ms. Pack. A couple of years ago, I highlighted the problems at the Army in terms of abuse of credit cards. The Government Accountability Office found that Army personnel were using the cards to buy personal items, such as cars, racetrack betting, Elvis photos from Graceland, and you can name a lot of other things.

Now, at the time, you were the Army's Comptroller. You stated that you believed it was your personal responsibility to correct this problem. I would like you to state to the committee what you did to correct the problem, whether the problem is fully corrected, and finally, how you believe that that experience applies to your work now at the Treasury Department.

Ms. PACK. Well, Senator, you and I worked together on that. That effort was spearheaded by the DoD Comptroller. I do not think that it would have gotten the focus without your being the champion that you were. As you know, we worked with you, and others, to get revised legislation which permitted better controls.

In the Army's case, with the new legislation, we were able to take away about 150,000 credit cards from people who did not use them properly, and frankly, did not need them. But the other key actions that were taken were the mandatory split disbursement and the salary offset.

Then, finally, DoD put in a system, a data mining system, that allowed better and quicker identification of misuse and abuse. So, that experience was a positive one. I do not think the problem will ever go away completely, but that example is something that could be applied at any agency in the Federal Government, and I would use that experience in my next position, if confirmed.

The CHAIRMAN. Senator?

Senator BUNNING. I have one more.

The CHAIRMAN. Please go ahead, Senator Bunning.

Senator BUNNING. Mr. Kimmitt, I just want to pose a question to you. It has been about 4 or 5 years now that we have had a permanent most favored nation status for China that was voted on in the Congress of the United States. We have had some good and some very not-so-good results from that. Obviously, they used that as a tool to get into the World Trade Organization.

My question to you is, in 1981 or 1982, if a permanent normal trade relationship was proposed for the Communist government of the Soviet Union, do you think this administration would have been for it?

Mr. KIMMITT. Oh, boy. Senator, that is almost a historical hypothetical.

Senator BUNNING. Yes, it is.

Mr. KIMMITT. I am going back. I think at the time, the policy of the Reagan administration was, with regard to the Soviet Union, as I mentioned with regard to China, to look at what was then our preeminent competitive relationship in as broad-gauged a fashion as possible.

My recollection was that, although there were still, in effect, a number of the sanctions that had been put in place after the Soviet invasion of Afghanistan, and that frankly, you will recall, the Sovi-

ets were just about to go from Brezhnev to Chernyenko to Andropov to Gorbachev in about a 3½-year period, consistent with the Jackson-Vanik amendment, we were looking for ways, without helping their hard currency position, to use the economic and trade levers as a way to put pressure on them. I do not recall MFN coming up in that context. Frankly, I think I would have to think a little bit about it, hypothetically.

Senator BUNNING. Well, most favored nation status never came up for the Soviet Union.

Mr. KIMMITT. Right.

Senator BUNNING. But MFN came up as soon as I got to the Congress in the House of Representatives in 1987.

Mr. KIMMITT. With regard to?

Senator BUNNING. Every year, you had to renew it.

Mr. KIMMITT. Right. Exactly.

I mean, it is hard for me to answer the hypothetical.

Senator BUNNING. I understand. What I am trying to say is, we still do not have a free and open government in China. We are trading. We have around a \$165 billion trade deficit with China, and that has come mostly since permanent most favored nation status has been given to China.

My question is, is that good or is it not good?

Mr. KIMMITT. I think the improved trade relationship with China is good. I think there are parts of it that are of concern. The one issue that has been mentioned here that I know is a particular concern to this committee, and certainly to the administration, is the question of Chinese currency.

Senator BUNNING. Well, we are going to do something about that, since you are not.

Mr. KIMMITT. Well, the Chinese need to play by a fair set of rules. But I would go back to what Chairman Grassley said, that I think that as they get into situations where they are graded not just by internal criteria, but also external criteria, including membership in the WTO and elsewhere, our hope would be that they would move in the direction of being the kind of fair trading partners—

Senator BUNNING. A good member of the WTO, someone who abides by the rules.

Mr. KIMMITT. Yes. And obviously, at the same time, I do not gainsay for a moment your concerns about their political system, their governmental system. But I think at this particular point, certainly from the point of view of the Treasury Department, trying to focus on the free trade, the free flow of capital, the flexible currency components, I think, are the most important thing that we can do.

Senator BUNNING. Well, I think those are probably very positive aspects of trade with China. My question is, are we, as Mr. Khrushchev used to say, going to sell the rope to hang ourselves with? He said it better than I did, I know.

Mr. KIMMITT. I think it was actually one of his predecessors, but Khrushchev—

Senator BUNNING. Well, he repeated it.

Mr. KIMMITT. Right.

Senator BUNNING. He used to bang on his—



Mr. KIMMITT. Right. He was a little more colorful in the way he did it.

Senator BUNNING. Yes. All right.

But I am deeply concerned. I am deeply concerned when national security is involved. We did not have, on the floor of the Senate yesterday, an amendment that would deal with the Unocal situation. We were going to have one, but I thought that it was best not to have it. The person who was going to propose it thought it was best not to do it. We will be very happy if Exxon-Mobil, or the successors of Unocal, are able to complete that by August 10.

Thank you all for coming. We deeply appreciate your testimony, and we hope that we get to have a vote on your confirmation. As soon as you talk to our Ranking Member, Mr. Baucus, we will have that.

Thank you very much, everybody, for coming. The hearing is adjourned.

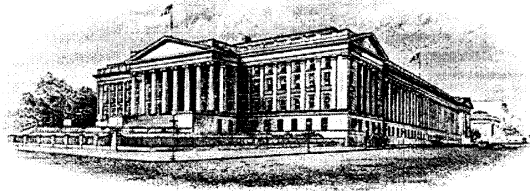
[Whereupon, at 11:40 a.m., the hearing was concluded.]



# APPENDIX

## ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

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### DEPARTMENT OF THE TREASURY OFFICE OF PUBLIC AFFAIRS

Embargoed Until 10 a.m. EDT  
July 20, 2005

CONTACT: Tony Fratto  
(202) 622-2910

**Statement of Kevin I. Fromer  
Nominee for Deputy Under Secretary for Legislative Affairs  
U.S. Department of the Treasury  
before the Senate Finance Committee**

Chairman Grassley, Ranking Member Baucus and members of the Committee, thank you for scheduling this hearing and for considering my nomination. It is an honor to appear before you today.

I wish to thank President Bush for nominating me for the position of Deputy Under Secretary of the Treasury and Secretary Snow for his support of this appointment. I also want to express my deepest appreciation and respect to Representative Hal Rogers of Kentucky and the Speaker of the House, J. Dennis Hastert, for their support and guidance throughout my career in Congress.

I have spent nearly twenty-three years understanding and supporting the work of the legislative branch in a variety of positions. I believe these professional experiences have prepared me for the appointment you are considering. My policy work has focused on the budget and appropriations processes, both of which shape or impact numerous other areas of policy and government activity. I have held senior staff positions in personal, committee and leadership environments, developing important relationships and an understanding of the workings of both houses of Congress. I have developed managerial experience that, if confirmed, will help me lead and support other individuals responsible for dealing with Congress and others in the Department of the Treasury and the Administration.

If confirmed, I will apply the skills, knowledge and experiences I have gained to faithfully representing the policies and views of the Department and the Administration on matters before this Committee and others in the Congress. I also will ensure that the views of the Congress are accurately conveyed and fully understood within the Department and the Administration. I will

strive to see that timely and accurate responses are provided to Members of Congress with questions and concerns.

As you know, the Department has broad and significant responsibilities upon which the economic vitality and security of this country depends. It promotes policies to achieve and maintain economic growth and job creation, it works to sever financial lines of support to terrorists, it maintains trust and confidence in our banking and financial systems, it carries out complex policies and programs to enhance the economic performance of other regions of the world, consistent with U.S. interests. In addition to these priorities, the Department is actively engaged in major policy initiatives and reforms involving retirement security, housing finance, and the tax system, among others.

These activities require the understanding and support of the Congress. This Committee, in particular, has a daily need to work with the Department in carrying out legislative and oversight responsibilities that overlap significantly with the Department's portfolio. If confirmed, I look forward to making contributions to the Committee's work.

Mr. Chairman and Senator Baucus, thank you again for permitting my appearance before the Committee. It is a great privilege. I am further appreciative to the majority and minority staffs, which have been courteous to me and generous with their time in preparation for this process.

Thank you for your consideration. I look forward to responding to any questions you may have.

SENATE FINANCE COMMITTEE  
STATEMENT OF INFORMATION REQUESTED OF NOMINEE

A. BIOGRAPHICAL INFORMATION

1. Name:

**Kevin Irwin Fromer**

2. Position to which nominated:

**Deputy Under Secretary of the Treasury (Legislative Affairs)**

3. Date of nomination:

**June 6, 2005**

4. Address:

**Residence: 108 E. Bellefonte Avenue  
Alexandria, VA, 22301**

**Office: Office of the Speaker  
H419 Capitol  
Washington, DC 20515**

5. Date and place of birth:

**11/28/59, Buffalo, NY**

6. Marital status: **Unmarried**

7. Names and ages of children: **None**

8. Education: (List secondary and higher education institutions, dates attended, degree received, and date degree granted.)

**Oakton High School, Vienna, VA -- 9/73-6/77**

**University of Virginia -- 8/77-5/81  
BA, 5/81**

9. Employment record: (List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment.)

**American Automobile Association  
Customer Service Representative  
Falls Church, VA  
7/81-8/82**

**U.S. Representative Harold Rogers  
2406 Rayburn Building, Washington, DC  
Staff Assistant, 8/82-5/83  
Legislative Assistant, 5/83-12/84  
Legislative Director, 1/85-7/88**

**House Appropriations Committee  
Associate Staff/Staff to Ranking Minority Member  
Subcommittee on Commerce, Justice, State, the Judiciary and Related  
Agencies  
8/88-11/92**

**U.S. Representative Harold Rogers  
Chief of Staff  
12/92-3/02**

**Office of the Speaker  
Assistant to the Speaker for Policy (Budget and Appropriations)  
H-419 Capitol, Washington, DC  
4/02-Present**

10. Government experience: (List any advisory, consultative, honorary, or other part-time service or positions with Federal, State or local governments, other than those listed above.)

**None**

11. Business relationships: (List all positions held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, other business enterprise, or educational or other institution.)

**None**

12. Memberships: (List all memberships and offices held in professional, fraternal, scholarly, civic, business, charitable, and other organizations.)

**Republicans Associated for Mutual Support, professional organization  
(served as president in 2001)**

13. Political affiliations and activities:

- a. List all public offices for which you have been a candidate.

**None**

- b. List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

**1993-April, 2002, Assistant Treasurer, Hal Rogers for Congress  
(federal congressional campaign committee)**

- c. Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of \$50 or more for the past 10 years.

**Anne Northup for Congress, 3/19/97, \$100  
Mark Kirk for Congress, 6/20/00, \$100  
Friends of George Allen, 6/27/00, \$500  
Anne Northup for Congress, 10/11/00, \$50  
George W. Bush/Bush-Cheney '04, 3/25/04, \$250  
Republican National Committee, 9/18/04, \$100**

**Prior to 1997 I believe I made a limited number of small contributions but I have not retained records.**

14. Honors and Awards: (List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals, and any other special recognitions for outstanding service or achievement.)

**John C. Stennis Center for Public Service  
Congressional Staff Fellow, 106<sup>th</sup> Congress**

15. Published writings: (List the titles, publishers, and dates of all books, articles, reports, or other published materials you have written.)

**None**

16. Speeches: (List all formal speeches you have delivered during the past five years which are on topics relevant to the position for which you have been nominated. Provide the Committee with two copies of each formal speech.)

**None**

17. Qualifications: (State what, in your opinion, qualifies you to serve in the position to which you have been nominated.)

**During the twenty-two years that I have worked in the legislative branch, I have developed an extensive background in the legislative process and federal budget policy. I have served as budget and appropriations advisor to the Speaker of the House, responsible for a range of issues that require collaboration with legislative committees, representatives of the House and Senate leadership and executive branch officials. My experience with the appropriations process, in both committee staff and leadership staff capacities, has provided significant exposure to agency operations and congressional oversight. I also have managerial experience, having served nine years as the chief of staff to a member of Congress.**

**The Department of Treasury develops and carries out a variety of policies and activities of importance to this and other committees of the Congress. The individual in this position must ensure that the views of Congress on such matters are understood and considered by the Department and the Administration. Additionally, this person must keep the Congress informed of the Administration's views and initiatives.**

**I believe my policy background, congressional perspective, and managerial experience will allow me to assist the Administration and the Congress in accomplishing many important objectives.**



B. FUTURE EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, associations, or organizations if you are confirmed by the Senate? If not, provide details.

**Yes, I will sever all connections.**

2. Do you have any plans, commitments, or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, provide details.

**No**

3. Has any person or entity made a commitment or agreement to employ your services in any capacity after you leave government service? If so, provide details.

**No**

4. If you are confirmed by the Senate, do you expect to serve out your full term or until the next Presidential election, whichever is applicable? If not, explain.

**Yes**

C. POTENTIAL CONFLICTS OF INTEREST

1. Indicate any investments, obligations, liabilities, or other relationships which could involve potential conflicts of interest in the position to which you have been nominated.

**Any potential conflicts of interest have been identified and resolved in accordance with the terms and conditions of my ethics agreement with the Department of Treasury, which is documented by letter to Kenneth Schmalzbach, Designated Agency Ethics Official and Assistant General Counsel for General Law and Ethics.**

2. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

**None**

3. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat, or modification of any legislation or affecting the administration and execution of law or public policy. Activities performed as an employee of the Federal government need not be listed.

**None**

4. Explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items. (Provide the Committee with two copies of any trust or other agreements.)

**Any potential conflicts of interest have been identified and resolved in accordance with the terms and conditions of my ethics agreement with the Department of the Treasury, which is documented by letter to Kenneth Schmalzbach, Designated Agency Ethics Official and Assistant General Counsel for General Law and Ethics. Should any potential conflicts of interest arise in the future, I will consult with Treasury ethics officials.**

5. Two copies of written opinions should be provided directly to the Committee by the designated agency ethics officer of the agency to which you have been nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position.
6. The following information is to be provided only by nominees to the positions of United States Trade Representative and Deputy United States Trade Representative:

Have you ever represented, advised, or otherwise aided a foreign government or a foreign political organization with respect to any international trade matter? If so, provide the name of the foreign entity, a description of the work performed (including any work you supervised), the time frame of the work (e.g., March to December 1995), and the number of hours spent on the representation.

**Not applicable.**

D. LEGAL AND OTHER MATTERS

1. Have you ever been the subject of a complaint or been investigated, disciplined, or otherwise cited for a breach of ethics for unprofessional conduct before any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.

**No**

2. Have you ever been investigated, arrested, charged, or held by any Federal, State, or other law enforcement authority for a violation of any Federal, State, county or municipal law, regulation, or ordinance, other than a minor traffic offense? If so, provide details.

**No**

3. Have you ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.

**No**

4. Have you ever been convicted (including pleas of guilty or nolo contendere) of any criminal violation other than a minor traffic offense? If so, provide details.

**No**

5. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

**I have no additional information for the Committee.**

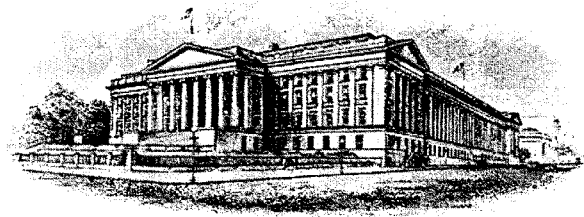
E. TESTIFYING BEFORE CONGRESS

1. If you are confirmed by the Senate, are you willing to appear and testify before any duly constituted committee of the Congress on such occasions as you may be reasonably requested to do so?

**Yes**

2. If you are confirmed by the Senate, are you willing to provide such information as is requested by such committees?

**Yes**



**DEPARTMENT OF THE TREASURY  
OFFICE OF PUBLIC AFFAIRS**

Embargoed Until 10 a.m. EDT  
July 20, 2005

CONTACT: Tony Fratto  
(202) 622-2910

**Statement of Robert M. Kimmitt  
Nominee for Deputy Secretary  
U.S. Department of the Treasury  
before the Senate Finance Committee**

Mr. Chairman, Senator Baucus, Members of the Committee, thank you for the opportunity to appear before you today. I am honored to be President Bush's nominee to serve as Deputy Secretary of the Treasury Department, and I am grateful to Secretary Snow for his confidence and support.

I am pleased to be joined today by my wife Holly and four of our five children: Kathleen, Robert, William, and Mac – each of whom has served as either a page or an intern in the Senate. Also here are my brother Jay and my sister Judy, who together had over 45 years of service to the Senate. I only regret that my late father, former Secretary of the Senate and Secretary for the Majority, Stan Kimmitt, from the great state of Montana, is not with us today, for it was he who inspired all seven of his children and now his grandchildren to the noble cause of public service and a particular respect for the institution of the United States Senate.

It was twenty years ago this summer that I appeared before this Committee as President Ronald Reagan's nominee for the position of General Counsel of the Treasury Department under Secretary Jim Baker. I had previously served as an Army paratrooper in combat in Vietnam and later as a senior member of the National Security Council Staff at the White House. After my service at Treasury, I was Undersecretary of State for Political Affairs and later American Ambassador to Germany. In the twelve years since returning from Germany, I have served as a banker, lawyer, and business executive. If confirmed by the Senate, I look forward to bringing the perspectives of these decades of public and private sector experience to my work at the Treasury.

The world and the Treasury Department are very different places than they were during my service in the Department twenty years ago. But the central role played by the Treasury Department as the Administration's senior economic and financial department has been brought into even sharper relief in the ensuing decades. In addition to its internal responsibilities for tax administration and enforcement, financial management, and domestic finance, the Treasury Department plays a critical role in all three major interagency bodies of the Executive Branch: the National Security Council, the National Economic Council, and the Homeland Security Council. Whether the issue is Social Security, economic policy, or tax reform; international debt or foreign direct investment; terrorist financing or economic sanctions, the Treasury Department has an essential responsibility to ensure that these issues are carefully considered and coordinated within the Department and interagency process prior to engagement with key external counterparts, beginning with the Congress.

If confirmed by the Senate, I look forward to helping ensure that the Treasury Department performs these essential tasks with the diligence and skill that are the hallmarks of the Department. In that effort, Secretary Snow and I will be assisted not only by strong Presidential appointees, represented by the colleagues who appear with me today, but also by the dedicated and highly professional career civil servants who are and always have been the backbone of the Department.

Mr. Chairman, Senator Baucus, Members of the Committee, thank you again for this opportunity. If confirmed, I look forward to further such opportunities to interact with you, and I would be pleased to answer any questions you may have.

SENATE FINANCE COMMITTEE  
STATEMENT OF INFORMATION REQUESTED OF NOMINEE

A. BIOGRAPHICAL INFORMATION

1. Name: (Include any former names used.)  
Robert M. Kimmitt
2. Position to which nominated:  
Deputy Secretary of the Treasury
3. Date of nomination:  
June 30, 2005.
4. Address: (List current residence, office, and mailing addresses.)  
Home (also mailing): 4471 North 26<sup>th</sup> Street  
Arlington, VA 22207-4105  
Office (also mailing): Wilmer Cutler Pickering Hale and Dorr  
1801 Pennsylvania Avenue, NW  
Washington, DC 20006-3606
5. Date and place of birth:  
December 19, 1947  
Logan, UT
6. Marital status: (Include maiden name of wife or husband's name.)  
Married to Holly S. Kimmitt née Sutherland.

## 7. Names and ages of children:

Kathleen W. Kimmitt	25
Robert M. Kimmitt, Jr.	23
William P.J. Kimmitt	21
Thomas M. Kimmitt	20
Margaret R. Kimmitt	18

## 8. Education: (List secondary and higher education institutions, dates attended, degree received, and date degree granted.)

Bishop O'Connell High School		
1964 - 1965	High School Diploma	June 1965

U.S. Military Academy		
1965 - 1969	B.S.	June 1969

University of Oklahoma		
1972-1973		

Georgetown Law School		
1974 - 1977	J.D.	May 1977

## 9. Employment record: (List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment.)

1969 - 1974	Active duty military officer	U.S. Army	United States and Vietnam
1974 - 1977	Law school	Georgetown University	Washington, DC
1977 - 1978	Law Clerk	U.S. Court of Appeals	Washington, DC
1978 - 1983	Staff Member & Counsel	National Security Council	Washington, DC
1983-1985	Executive Secretary & General Counsel and Deputy Assistant to the President for National Security Affairs		
1985 - 1987	General Counsel	Department of the Treasury	Washington, DC
1987 - 1989	Partner	Sidley & Austin	Washington, DC

1989 – 1991	Undersecretary of State for Political Affairs	Department of State	Washington, DC
1991 – 1993	American Ambassador to Germany	Department of State	Bonn, Germany
1993 – 1997	Managing Director	Lehman Brothers	Washington, DC
1997 – 2000	Partner and Counsel	Wilmer Cutler & Pickering	Washington, DC
2000 – 2001	President & Vice Chairman	Commerce One	Pleasanton, CA
2001 – 2005	Executive Vice President, Global Public Policy	Time Warner Inc.	Washington, DC
2005 - Present:	Chairman, International Advisory Council	Time Warner Inc.	Washington, DC
2005 - Present:	Senior International Counsel	Wilmer Cutler Pickering Hale and Dorr	Washington, DC

10. Government experience: (List any advisory, consultative, honorary, or other part-time service or positions with Federal, State or local governments, other than those listed above.)  
Army Reserve (1982-2004)  
National Defense Panel (1997)  
Member of the DCI's National Security Advisory Panel (1998-2004)
11. Business relationships: (List all positions held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, other business enterprise, or educational or other institution.)  
Allianz Life Insurance Company of North America: Board member  
Big Flower Holdings Inc.: Board member  
BMW US Advisory Board: Board member  
Commerce One, Inc.: Vice Chairman and President  
Cordant Inc.: Board member  
Georgetown University: Board member  
Gonzaga College High School: Board member  
Kimmitt Family Partnership: General partner  
Lehman Capital Partners: Limited partner  
Mannesmann AG: Member of the Supervisory Board and International Advisory Council  
Siemens AG: Member of the Supervisory Board  
Time Warner Inc.: Officer  
United Defense Industries Inc.: Board member  
Wilmer, Cutler & Pickering: Partner and Counsel  
Wilmer Cutler Pickering Hale and Dorr: Senior International Counsel  
Xign Corp.: Board member



12. Memberships: (List all memberships and offices held in professional, fraternal, scholarly, civic, business, charitable, and other organizations.)

Board Member:

American Council on Germany  
 American Institute for Contemporary German Studies  
 AOL Time Warner Foundation  
 Arthur F. Burns Fellowship  
 The Atlantic Council  
 Georgetown University, BMW Center for German & European Studies  
 The German Marshall Fund of the United States  
 International Republican Institute  
 The Maureen and Mike Mansfield Foundation  
 US-China Business Council

Member Only:

American Academy of Diplomacy  
 Association of Graduates, U.S. Military Academy (board member from 1978-82)  
 Council on Foreign Relations  
 DC Bar  
 Markle Foundation Task Force  
 The Metropolitan Club  
 Pacific Council on International Security Policy  
 Society of the 173<sup>rd</sup> Airborne Brigade  
 UNOPS Business Advisory Council  
 Vietnam Veterans Memorial Corporate Council  
 Washington Golf & Country Club  
 West Point Society of D.C.

13. Political affiliations and activities:

- a. List all public offices for which you have been a candidate.

N/A

- b. List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Provided informal advice on Vice Presidential candidate selection process to the Bush (2000) and Dole (1996) campaigns.

- c. Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of \$50 or more for the past 10 years.

10/19/04	Citizens for Arlen Specter	\$1000
9/23/04	RNC Presidential Trust	\$2500
4/13/04	Time Warner PAC	\$5000
4/13/04	Lindsey Graham for Senate	\$1000
10/3/03	AOL Time Warner PAC	\$5000
6/17/03	Bush-Cheney '04	\$2000
5/22/03	The 2003 President's Dinner	\$5000
11/27/02	Terrell for Senate	\$1000
10/10/02	Friends of Pataki	\$5000
10/10/02	Gordon Smith for Senate	\$1000
9/25/02	AOL Time Warner PAC	\$5000
9/25/02	Cornyn for Senate	\$1000
9/25/02	Dole 2002 Committee	\$1000
9/25/02	Forrester 2002 Inc.	\$1000
9/25/02	Team Sununu	\$1000
9/25/02	John Thune for South Dakota	\$1000
9/25/02	Norm Coleman for U.S. Senate	\$1000
12/11/01	AOL Time Warner PAC	\$5000
10/8/01	Friends of Mark Earley	\$1000
10/20/00	Claude Hutchison for Congress Committee	\$1000
1/18/00	McConnell Senate Committee '02	\$2000
1/8/00	Friends of George Allen	\$1500
6/24/99	Bush for President Inc.	\$1000
4/12/99	Lazio 2000 Inc.	\$250
4/8/99	Friends of George Allen	\$500
3/30/99	Hatch Election Committee Inc.	\$1000
7/1/98	Heather Wilson for Congress	\$500
1/22/98	Rusthoven for Senator	\$250
2/25/97	Christopher Cox Congressional Committee	\$250
2/3/97	Hagel for Nebraska	\$1000
5/25/96	Friends of Larry Pressler	\$1000
4/24/96	McConnell Senate Committee '96	\$1000

14. Honors and Awards: (List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals, and any other special recognitions for outstanding service or achievement.)
- For service during the Gulf Crisis and War: Presidential Citizen's Medal, awarded by George H.W. Bush;
  - US Department of Defense: Distinguished Public Service Award;
  - US Department of the Treasury: Alexander Hamilton Award;
  - Downtown Jaycees: The Arthur Flemming Award for distinguished public service;
  - For combat service with the 173<sup>rd</sup> Airborne Brigade in Vietnam: 3 Bronze Star Medals, Purple Heart, Air Medal, Vietnamese Cross of Gallantry, and campaign ribbons;
  - For non-combat service both on active duty and in the Army Reserve:
    - Army Distinguished Service Medal
    - Defense Superior Service Medal
    - Defense Meritorious Service Medal (with Oak Leaf Cluster)
    - Joint Service Commendation Medal
    - Army Commendation Medal (with 2 Oak Leaf Clusters);
  - Ranger Tab (Distinguished Honor Graduate and Darby Award Winner, Class 8-70), Senior Parachutist Badge (Distinguished Honor Graduate, Jumpmaster Course, April 1972), Presidential Service Badge, and Joint Staff Service Badge;
  - Germany's *Bundesverdienstkreuz* and also an award from the German Defense Ministry.
15. Published writings: (List the titles, publishers, and dates of all books, articles, reports, or other published materials you have written.)
- Editorial, *Iran: Time for Europe to Lead*, Washington Post, Sept. 4, 2003, at A21;
  - Manager's Journal, *A Diplomatic Approach to Succeeding Abroad*, The Wall Street Journal, Oct. 18, 1993, at A16;
  - *US policy on regional conflicts: Cambodia, Afghanistan*, Washington, DC: U.S. Dept. of State, Bureau of Public Affairs, Office of Public Communication (1990);
  - *International law and the war on narcotics*, Washington, D.C.: U.S. Dept. of State, Bureau of Public Affairs, Office of Public Communication (1990);
  - *Impact of recent world changes on U.S. defense and foreign policies*, Washington, D.C.: U.S. Dept. of State, Bureau of Public Affairs, Office of Public Communication (1990);
  - *The challenge of regional conflicts: Afghanistan, Cambodia and U.S.*, Washington, D.C.: U.S. Dept. of State, Bureau of Public Affairs, Office of Public Communication (1990);

- *The U.S. and Japan: defining our global partnership*, Washington, D.C. : U.S. Dept. of State, Bureau of Public Affairs, Office of Public Communication, Editorial Division (1989);
- *Foreign Investment in U.S. Securities Firms*, 572 P.L.I./Corp 210, Sept. 18, 1987;
- *Tribute: Edward Allen Tamm: Jurist, Teacher, and Friend*, 74 Geo. L.J. 1580 (1986);
- Bi-monthly column in *Assembly*, the West Point alumni magazine, 1969–present.

16. Speeches: (List all formal speeches you have delivered during the past five years which are on topics relevant to the position for which you have been nominated. Provide the Committee with two copies of each formal speech.)

N/A

17. Qualifications: (State what, in your opinion, qualifies you to serve in the position to which you have been nominated.)

Over the past 30 years, I have worked at senior levels both in government and in the private sector. In positions at the White House with the National Security Council, at the Treasury and State Departments, and as American Ambassador to Germany, I dealt with a full range of Treasury issues, both at home and abroad. As a banker, lawyer, and business executive in the private sector, I experienced the effects of government laws, regulations, and policies, especially those for which the Treasury Department is responsible. In addition, both in government and the private sector, I have had the opportunity to work with Treasury's key external counterparts: the Congress; the interagency process; the financial, business, and non-profit communities; and the international financial community. Lastly, I have led large organizations, both in government and the private sector, and have had extensive dealings with the budget and appropriations processes.

#### B. FUTURE EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, associations, or organizations if you are confirmed by the Senate? If not, provide details.

Yes.

2. Do you have any plans, commitments, or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, provide details.

No.

3. Has any person or entity made a commitment or agreement to employ your services in any capacity after you leave government service? If so, provide details.

No.

4. If you are confirmed by the Senate, do you expect to serve out your full term or until the next Presidential election, whichever is applicable? If not, explain.

Yes.

#### C. POTENTIAL CONFLICTS OF INTEREST

1. Indicate any investments, obligations, liabilities, or other relationships which could involve potential conflicts of interest in the position to which you have been nominated.

Any potential conflicts of interest have been identified and resolved in accordance with the terms and conditions of my ethics agreement with the Department of Treasury, which is documented by letter to Kenneth Schmalzbach, Designated Agency Ethics Official and Assistant General Counsel for General Law and Ethics.

2. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

Any potential conflicts of interest have been identified and resolved in accordance with the terms and conditions of my ethics agreement with the Department of Treasury, which is documented by letter to Kenneth Schmalzbach, Designated Agency Ethics Official and Assistant General Counsel for General Law and Ethics.

3. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat, or modification of any legislation or affecting the administration and execution of law or public policy. Activities performed as an employee of the Federal government need not be listed.

From 2001 to 2005, as head of the Time Warner policy office, I helped represent or oversee representation of the company's interests before both the Congress and the Administration on a wide range of issues:

- Internet taxation – Senate and House Leadership, Senate Commerce Committee, House Judiciary Committee, and White House;
- FSC/ETI – Senate Finance Committee, House Ways and Means Committee, Senate and House Leadership, White House, and Treasury Department;
- Free Trade Agreements, including Australia, Singapore, and Chile – Senate Finance Committee, House Ways and Means Committee, and U.S. Trade Representative's office;
- Bilateral tax treaties, including Japan, Netherlands, and Italy – Senate Foreign Relations Committee and Departments of State and Treasury;
- Copyright protection – Senate Commerce Committee, House Commerce and Judiciary Committees, Departments of State, Justice, and Commerce;
- Postal Reform – Senate Government Affairs Committee, House Committee on Government Reform, White House, and Treasury Department;
- Cable regulation – Senate Commerce Committee, House Commerce and Judiciary Committees, and FCC.

From 1997 to 2000, as a partner and later counsel of Wilmer, Cutler & Pickering, I was part of the team that helped forge the agreement bringing a measure of justice and restitution to World War II forced and slave laborers and their families. In connection with this representation, the firm had occasion to interact with the Departments of State, Treasury, and Justice. In a separate matter, I was part of the team that represented GTE in resolving tax issues affecting their contractors working for the U.S. military in Germany, and in connection with this representation, had occasion to interact with the Departments of State and Defense.

In 1997-1998, as a member of the National Defense Panel, I appeared before the Senate and House Armed Services Committees, and interacted with the Departments of State and Defense on transformation of the U.S. military.

In 1995, I appeared before the Subcommittee on International Operations Subcommittee of the Senate Foreign Relations Committee regarding State Department reorganization.

- 4 Explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items. (Provide the Committee with two copies of any trust or other agreements.)

Any potential conflicts of interest have been identified and resolved in accordance with the terms and conditions of my ethics agreement with the Department of Treasury, which is documented by letter to Kenneth Schmalzbach, Designated Agency Ethics Official and Assistant General Counsel for General Law and Ethics.

5. Two copies of written opinions should be provided directly to the Committee by the designated agency ethics officer of the agency to which you have been nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position.

6. The following information is to be provided only by nominees to the positions of United States Trade Representative and Deputy United States Trade Representative:

Have you ever represented, advised, or otherwise aided a foreign government or a foreign political organization with respect to any international trade matter? If so, provide the name of the foreign entity, a description of the work performed (including any work you supervised), the time frame of the work (e.g., March to December 1995), and the number of hours spent on the representation.

N/A

#### D. LEGAL AND OTHER MATTERS

1. Have you ever been the subject of a complaint or been investigated, disciplined, or otherwise cited for a breach of ethics for unprofessional conduct before any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.

No.

2. Have you ever been investigated, arrested, charged, or held by any Federal, State, or other law enforcement authority for a violation of any Federal, State, county or municipal law, regulation, or ordinance, other than a minor traffic offense? If so, provide details.

No.

3. Have you ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.

In my capacity as an executive at Time Warner Inc., I was among those named in a civil court action in July 2004: Stichting Pensioenfonds v. AOL Time Warner, in the US District Court for the Southern District of NY. The matter is pending; however, I was dismissed as a defendant.

In my capacity as a director at Big Flower Holdings Inc., I was among those named in a civil court action in June 1999: In re Big Flower Holdings, in Delaware Chancery Court, DE. The case was settled.

4. Have you ever been convicted (including pleas of guilty or nolo contendere) of any criminal violation other than a minor traffic offense? If so, provide details.

No.

5. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

N/A

#### E. TESTIFYING BEFORE CONGRESS

1. If you are confirmed by the Senate, are you willing to appear and testify before any duly constituted committee of the Congress on such occasions as you may be reasonably requested to do so?

Yes.

2. If you are confirmed by the Senate, are you willing to provide such information as is requested by such committees?

Yes.



**Questions For the Record for Ambassador Robert Kimmitt  
July 26, 2005**

**From Chairman Grassley:**

Does the New Markets Tax Credit Program favor cities and not focus on rural areas enough?

**Answer**

The following information was provided to me by the Treasury Department:

The CDFI Fund, in administering allocations of tax credits under the New Markets Tax Credit Program, recognizes organizations serving cities and organizations serving rural areas. Through three rounds of the NMTC Program, the CDFI Fund has made 170 awards totaling \$8 billion in private equity investments for which tax credits may be claimed. Of these 170 awardees, 106 (or 62%) indicated that at least some portion of their activities would likely be directed to rural communities. Based on information presented in these applications, the Fund estimates that these 106 allocatees will likely invest over \$1.32 billion dollars in rural areas. Examples of activities that have already been undertaken in rural areas include:

- An investment in a truck body and accessories manufacturer to save 200 jobs in Council Bluffs, Iowa and create 100 new jobs in that community.
- An investment that enabled a Native American-owned pharmacy in Montana to purchase a new facility to house its operations.
- An investment in an airplane parts manufacturer that allowed it to open a new plant in a low-income community in rural Oklahoma, which will create 500 new jobs.
- An investment in a sustainable forest project in rural Maine that will restore operations to a formerly closed mill, preserving and/or re-activating over 600 jobs.
- An investment in a coal mining company in West Virginia that allowed it to expand operations to a new mining site, which will create 50 new jobs.

Historically, there has been a relatively limited number of awardees that intend to focus predominately on rural areas, which is likely a reflection of the fact that there have been a relatively limited number of applications received from such organizations. In the 2005 allocation round, for example, only 38 of the 208 applicants (18%) indicated that the majority of their activities would be directed to rural areas. The Fund's application materials and selection process are unbiased with respect to the types of markets that applicants propose to serve.

**From Senator Baucus:**

1. Terrorist financing is the lifeblood of terrorism. Without funding, terrorists can't easily travel, train or obtain weapons or the materials to produce them. That is why stopping the flow of money that supports terrorism is so critical to countering its threat.

I am concerned that the Treasury Department may not be up to the evolving challenges posed by terrorist financing. Terrorists consistently demonstrate their resiliency and ability to adapt and change and exploit systematic vulnerabilities. The Department used to provide strong central leadership in the effort to investigate terrorism financing. Treasury's central role in this effort made sense. Now the Administration's team is made up of 19 Federal offices and is run by the National Security Council. This is not a winning strategy and many are saying that our anti-terrorism financing effort is faltering.

One indicator that the war against terrorist financing is being lost is that the seizures of terrorist assets have tailed off dramatically in recent months. This raises concerns about the intensity and effectiveness of the administration's efforts.

I have three questions I would like you to address:

What should be our goal on terrorism financing?

**Answer**

Our goal on terrorist financing is and should be to work as a government to bring all available tools to bear in tracking and disrupting the networks that facilitate terrorism. The choice of tools is necessarily dependent on the target and goal. If the most effective strategy with respect to a known facilitator is to observe him covertly so as to trace the money flow upstream to the original donor or downstream to the ultimate terrorist end-users, then that will be our action. If the most effective strategy is instead to designate a facilitator in order to freeze terrorist-related assets and shut down a conduit of terrorist financing, then we will do so. We have an interagency process in place to assess which action or set of actions will inflict the maximum damage to or disruption of a terrorist network's capabilities. Our goal is not to boost the number of times that we exercise the tools of any particular agency, but rather to think and act as a single government to cut off the flow of funds to terrorism.

The Treasury Department is critical to these efforts and, I have been informed, is working on multiple fronts to both identify and disrupt terrorist financing networks and conduits and to stem their money flows:

- *Intelligence Analysis:* Intelligence analysts coordinated by Treasury's Office of Intelligence and Analysis (OIA) synthesize in-house and external information to identify targets and drive action by TFI policymakers. In addition, the Financial Crime

- Enforcement Network (FinCEN) – which supports law enforcement, intelligence, and regulatory agencies through the sharing and analysis of financial intelligence – is the U.S. representative to the international network of 100 financial intelligence units organized through the Egmont Group.
- Unique Treasury information includes Bank Secrecy Act (BSA) filings, OFAC Compliance Data, information from the worldwide network of Financial Intelligence Units, and economic assessments of the Office of Terrorist Financing and Financial Crime and the Office of International Affairs.
  - *Sanctions and Administrative Powers:* The primary sanction against terrorist supporters is E.O. 13224, administered and implemented by the Office of Foreign Assets Control, under which individuals and entities supporting terrorism can be cut off from the U.S. financial system. Recent designations have included key individuals from Abu Musab al-Zarqawi’s network. In conjunction with the State Department, we continuously work to maximize the impact of these and other sanctions by enlisting international support, including through relevant Security Council resolutions at the United Nations.
  - *Financial Regulation and Supervision:* Rules guaranteeing a certain level of transparency are absolutely required if we are to be effective in tracking terrorist financing, and the United States is leading the global effort to increase financial transparency. The Treasury, through FinCEN, administers the Bank Secrecy Act and issues and enforces anti-money laundering/counter-terrorist financing regulations, including those mandated by the USA PATRIOT Act.
    - Section 311 of the USA PATRIOT Act allows us to protect our financial systems by preventing jurisdictions and foreign financial institutions found to be of “primary money laundering concern” from doing business with the United States. For example, the Secretary designated the Commercial Bank of Syria (CBS) as a financial institution of primary money laundering concern based on concerns about financial wrongdoing at that bank, including terrorist financing.
  - *International Initiatives:* Treasury is part of and has access to an extensive international network of Finance Ministries and Finance Ministry-related bodies such as the Financial Action Task Force (FATF) and various FATF-Style Regional Bodies, the International Monetary Fund (IMF), the World Bank, the G7, and various regional multilateral development banks.
    - One of the most promising recent developments is the emergence of the Middle East North Africa Financial

Action Task Force (MENA FATF). Launched in November 2004, this 14-member body is already working on a process to assess its members for compliance with international standards and has formed working groups to address key issues like cash couriers, charities, and *hawala*.

- *Private Sector Outreach*: As a result of our traditional role in safeguarding the financial system, Treasury has developed a unique partnership with the private financial sector. Treasury has conducted significant outreach to the charitable sector, and to Muslim charities in particular. Treasury also maintains a close relationship with U.S. financial institutions through such programs as the BSA Advisory Group (BSAAG) to ensure a smooth exchange of information related to money laundering and terrorist financing. In addition, FinCEN administers Section 314 of the USA PATRIOT Act, which provides for enhanced information sharing between law enforcement and the financial sector (and between eligible financial institutions).
- *Law Enforcement and Law Enforcement Support*: Treasury combats various forms of financial crime through the direct law enforcement actions of IRS-CI and the law enforcement support provided by FinCEN and Treasury's regulatory authorities.

The terrorist financing threat is constantly evolving, and we must remain vigilant and adaptive as our initiatives push terrorists out of familiar financial channels, forcing them to devise new and more sophisticated ways to move and store money.

How should we measure success?

**Answer**

In the context of the financial war on terrorism, it is difficult to quantify our successes. We will likely never obtain a complete assessment of al Qaida's finances or ascertain precisely how much money intended for terrorists was kept from their hands due to our efforts. The best way to measure success in this area would be from intelligence reporting about the ease or difficulty with which terrorists are raising, moving, and storing money. I have been informed that the current information on this front is encouraging. I am told that the government is starting to see terrorist groups avoiding formal financing channels and instead resorting to riskier and more cumbersome conduits like bulk cash smuggling. I am also told that there are indications that terrorist groups like al Qaeda and HAMAS are feeling the pressure and do not have the same easy access to funds that they once did.

How should the administration organize itself on terrorism financing?

**Answer**

The U.S. Government campaign against terrorist financing cannot succeed without the strategic and coordinated deployment of a broad array of tools, including intelligence collection and operations, regulatory and administrative actions, criminal investigations and prosecutions, and diplomatic leverage. I am informed that an interagency Policy Coordinating Committee, chaired by the Deputy National Security Advisor for Combating Terrorism, currently serves as the coordination body through which the relevant agencies jointly assess which action or set of actions will inflict the maximum damage to a terrorist network's capabilities and ensure that those actions are given their full effect. This type of high-level coordination is imperative and also serves the critical function of aligning our actions to combat terrorist financing with the broader war on terrorism. I am informed that the interagency coordination has been effective and that the National Counterterrorism Center will soon provide support by facilitating the strategic planning process to make the best use of U.S. Government resources. If confirmed, I will assess the interagency architecture on this critical issue and, if appropriate, offer suggestions for improvement.

2. Spokespeople at the Treasury Department have asserted that our policy is in place to deny hard currency to Fidel Castro. But Cuba's economy continues to grow steadily—it grew by nearly 4% last year, up from nearly 3% the year before. Cuba receives Venezuelan oil at below-market prices. Partnering with such countries as Canada, Spain, Brazil and China, Cuba has begun to search for offshore oil, making a modest discovery of oil off of its coast that will help sustain the island's electrical power needs. China has made a \$2 billion investment in Cuba's most strategic natural resource, nickel—the island has one of the world's largest reserves of nickel. China is also making investments in Cuba's once-ailing tourism sector, and has also made generous donations of health and educational equipment.

All of this gives the impression that China and other nations invest their own dollar earnings in Cuba, undermining our best efforts to deny hard currency to Castro. Is our policy working?

**Answer**

I believe OFAC is successfully administering the Cuba trade embargo in support of current U.S. foreign policy objectives. However, I defer to the State Department concerning the Administration's assessment of its level of success in achieving its foreign policy objectives.

3. During your confirmation hearing, there was discussion about the risk involved in selling agricultural products to Cuba due to its relatively poor credit rating. Has the administration learned of any case in which Cuban buyers did not pay U.S. sellers in full before taking title to the products?

**Answer**

I am not aware of any such cases nor, I have been informed, is the Treasury Department.

4. As Deputy Secretary of the Treasury, you will have the opportunity to weigh in heavily on how Treasury's Office of Foreign Assets Control administers U.S. sanctions policy that is currently in place. I have heard concerns about the administration of the policy across a broad spectrum of religious organizations trying to support and grow independent church communities in Cuba, despite the Cuban government's lack of support for these activities. These groups say that their activities are in accord with stated administration policy goals, but that administration of the policy has significantly hampered their ability to travel to Cuba to worship with and support the growth of independent, fledgling Cuban church leaders and congregations.

- a. Recognizing that the environment for religious freedom in Cuba is still tenuous and often inhospitable, will you make every effort to support the work of all U.S. denominations and religious organizations wishing to travel in good faith to help enhance the Cuban people's free exercise of religion in Cuba?

**Answer**

Yes. As you know, the Administration's policy is to foster and support religious activity in Cuba, including support to independent Cuban church leaders and congregations in Cuba. I have been informed by the Treasury Department that OFAC currently issues travel licenses to U.S. religious organizations and individuals in support of this policy.

- b. The Global Ministries Office of the United Church of Christ and the Disciples of Christ have had a license for the past six years to travel to Cuba. These religious organizations state that they have a 25-year history of UCC/DCC travel to Cuba on an ecumenical level for exchange, study, and partnership with Christians in Cuba. In spite of having experienced no problems during this tenure with their license, OFAC, on April 22, recently denied this religious group a travel license on the basis that they were not "a religious organization" under current OFAC guidelines. Does OFAC have discretion to consider the definition of a "religious organization" if the organization has displayed a long and positive track record and demonstrates a good faith effort to undertake licensable activities in Cuba?

Unless there is a charge of activities outside the scope of their license, why would the mission leadership of any denomination that had previously been licensable no longer be licensable under the guidelines?

**Answer**

The following information was provided to me by the Treasury Department: OFAC's original policy was to issue religious organizations broad licenses that allowed them to select who they wanted to travel and placed no restriction on the number of travelers. In recent years, OFAC noticed an increase in abuse of the religious travel licenses that were issued to large organizations soliciting participation beyond their own organizations on trips to Cuba and, therefore, having less control of the travel groups and their activities in Cuba. The religious travel licensing policy was modified after consultation with the State Department in hopes of eliminating such abuses. Adopting a test used in the tax code, OFAC continues to issue the former broad licenses to smaller religious organizations, such as churches and similar congregational units, where leaders of the groups are more likely to know the individuals personally and more tightly control and monitor the specific program of religious activities in Cuba. Religious organizations that do not qualify for a broad license can still apply for and receive a license that restricts the number of travelers to 25 per trip and requires the organization to provide a list identifying all travelers. OFAC believes that this new approach will enable OFAC to continue to maintain a policy of authorizing religious activities in Cuba while minimizing abuses of that policy.

- c. For what purposes are religious organizations licensable to travel to Cuba, and why would the mission leadership of a denomination not be considered to be part of a religious organization?

**Answer**

The following information was provided to me by the Treasury Department: Licenses are granted to religious organizations to engage in various religious activities in Cuba, including ministering to congregations, training Cuban church leaders, attending religious services and ceremonies, assisting in church planning and the construction of churches. Travel for activities such as medical fellowships to provide medical care to Cuban nationals would not be licensed under the religious travel category, but could be considered pursuant to OFAC's humanitarian projects travel category. Provided they follow the application guidelines set forth on OFAC's website, mission leaderships of a denomination should be able to obtain religious travel licenses.

- d. Is travel by religious organizations whose goal is to exchange with, support or enhance independent Cuban churches, (including private home churches in cases when Cuban citizens are not able or allowed by their government to

finance a public place of worship) consistent with the policy of the United States which OFAC administers?

**Answer**

The following information was provided to me by the Treasury Department: Yes. It is consistent with current OFAC licensing policy to authorize religious organizations to travel to Cuba for the purpose of providing support to independent and private home churches in Cuba. That support may be in the form of ministering to congregations, training Cuban church leaders, attending religious services and ceremonies, and assisting in church planning and the construction of churches, among other activities.

- e. The Alliance of Baptists has been engaged in religious exchange with partners in Cuba for 15 years. They have had a religious travel license to engage in religious activities since 1995. In the last year and a half, they have brought more than 300 U.S. Baptists to Cuba in support of their partner, the Fraternity of Baptist Churches of Cuba, to meet and worship with church affiliated congregations. OFAC recently undertook an investigation of the Alliance's travel license usage and suspended the license. Alliance representatives have told my office that OFAC has communicated to them that the license was suspended because it was found that one group, out of a total of 20 that have traveled under the Alliance's license in last year and a half, had overnighted in Varadero, a peninsula associated with Cuban state-owned tourist enclaves. The Alliance of Baptists clarified that their partner religious organization in Cuba maintains this retreat facility in Varadero and that the incident does not reflect a deviation from their licensed mission. The group asserts that they simply stayed there overnight en route to visit a potential companion Baptist congregation in near-by Matanzas.

Will OFAC have occasion to re-examine the suspension of this or other religious organizations' licenses in a timely manner, so that if it is found that that they have not engaged in non-licensed activities, they may resume exchanges with their partner religious organization in Cuba?

**Answer**

The following information was provided to me by the Treasury Department: OFAC has an open investigation with respect to the Alliance of Baptists. If OFAC determines that that organization complied fully with the terms of its license, OFAC likely would license the organization to continue to engage in religious activities in Cuba.



- f. Religious organizations that visited my office under the umbrella of Church World Service, which represents 36 Protestant, Orthodox, and Anglican religious denominations, have stated that they learned in conversations with OFAC employees that religious organizations, which have previously been allowed to send their members to Cuba without limiting their numbers, must now submit applications naming no more than some 25 specific individuals to be licensed to travel to Cuba, regardless of changes in leadership, membership or availability. These groups argue that this will keep certain denominations from being able to meet with their Cuban counterparts, and that it should not be U.S. policy to restrict religious groups' access to their counterparts struggling to build church communities as long as the groups' activities are consistent with their license. Is it now OFAC's formal or informal policy to limit which members of a religious group in the United States may be licensed to travel to Cuba for the purposes of meeting with their religious counterparts in Cuba?

**Answer**

The following information was provided to me by the Treasury Department: As noted in the answer to question 4(b), OFAC's original policy was to issue religious organizations broad licenses that allowed them to select who they wanted to travel and placed no restriction on the number of travelers. In recent years, OFAC noticed an increase in abuse of the religious travel licenses that were issued to large organizations soliciting participation beyond their own organizations on trips to Cuba and, therefore, having less control of the travel groups and their activities in Cuba. The religious travel licensing policy was modified after consultation with the State Department in hopes of eliminating such abuses. Adopting a test used in the tax code, OFAC continues to issue the former broad licenses to smaller religious organizations, such as churches and similar congregational units, where leaders of the groups are more likely to know the individuals personally and more tightly monitor the specific program of religious activities in Cuba. Religious organizations that do not qualify for a broad license can still apply for and receive a license that restricts the number of travelers to 25 per trip and requires the organization to provide a list identifying all travelers. OFAC believes that this new approach will enable OFAC to continue to maintain a policy of authorizing religious activities in Cuba while minimizing abuses of that policy.

- g. Please provide the numbers religious organization license applications that have been received, approved, or denied since 2000, including the first two quarters of 2005.

**Answer**

The following information was provided to me by the Treasury Department:

From the two-year period of July 22, 2003 – July 22, 2005, OFAC issued 490 licenses to organizations and individuals to engage in religious activities in Cuba and denied 512 requests. The majority of the denials were for incomplete applications that did not furnish all of the information in the application guidelines for religious travel licenses, which are included in OFAC's *Comprehensive Guidelines for Licenses Applications to Engage in Travel-Related Transactions Involving Cuba*. These guidelines are available on OFAC's Internet website at [www.treas.gov/ofac](http://www.treas.gov/ofac) and are also mailed out as enclosures with denial letters and in response to telephone calls inquiring about the application process. Many of the applicants who were denied resubmitted their applications with complete information and were subsequently issued licenses. Prior to July 2003, tracking cases through OFAC's database provides less accurate information because the database was still under development.

5. As you know, the China National Offshore Oil Corporation ("CNOOC") has bid to purchase California-based Unocal. Reports are that CNOOC will obtain much of the financing for its bid on terms that are not market based, such as no-interest loans from other state-owned entities.

My understanding is that when it was negotiating to enter the WTO, China assured the United States and other WTO members that its state-owned companies would operate on market-based principles and would be lent money at market-based rates.

Treasury chairs the CFIUS (pronounced "SIF-ee-us") process that will review the transaction for national security concerns.

My question is this: will this WTO concern be considered as part of the CFIUS review? If not, will it be considered at all? It seems to me it would be awkward for CFIUS to allow a transaction that would allow China to violate its WTO commitments.

**Answer**

The Exon-Florio provision prohibits public disclosure of information filed with the President or his designee. Although I am not currently a part of the U.S. Government, if confirmed, this is a matter that may potentially come before me, and therefore, for the reasons delineated by Congress in the statute, it would be inappropriate to discuss any specifics related to the potential CNOOC transaction.

As a general matter, one of the issues that is considered in the CFIUS review process is the reliability of the acquiring company, including whether it is in compliance with applicable laws. To the extent it directly pertains to a particular transaction under review, an evaluation of this area certainly could extend, in the case of a government-owned company, into whether that government has a good record in terms of abiding by its obligations, including whether the relevant country is meeting its obligations and commitments under the World Trade Organization

agreements. Except where directly relevant to the national security issues raised by a particular transaction, financing mechanisms and terms of financing are not, as a matter of course, considered during the review process.

6. The Work Opportunity Tax Credit and Welfare to Work hiring tax incentive programs have been in effect for nearly nine years. Over two and a half years ago, in response to a letter I sent to Treasury, a Revenue Ruling (2003-112) was issued to clarify who qualifies for the program. I want to commend the Treasury Department for issuing that Revenue Ruling. However, to date IRS has not issued any guidance as to a settlement with eligible taxpayers. I understand that taxpayers and the IRS have been bogged down for some time in a negotiation over this settlement. Can you assure me that you will look into this problem and let me know how soon we can expect a resolution to this issue?

**Answer**

I can assure you that if confirmed I will look into this issue and encourage a prompt resolution. The Treasury Department has informed me that the IRS, in response to taxpayer requests, has initiated an Industry Issue Resolution (IIR) program on this issue. The IIR program is designed to foster communication between the IRS and outside stakeholders and achieve a quick resolution of frequently disputed or burdensome tax issues that are common to a large number of taxpayers. I understand that the IIR program has worked with great success in the past and I am hopeful that it will lead to a prompt and equitable resolution in this case.

**From Senator Lincoln:**

1. Many of us, particularly on the Finance Committee, where former Senator Long began our nation's policy to encourage increased ownership through employee ownership have consistently supported the concept of an ownership society. For example, I have introduced S. 1319, the ESOP improvement and Promotion Act. Those of us who do believe that a more equitable distribution of wealth and ownership is needed in our nation have listened with interest when President Bush and his team call for a nation of owners. But so far, all the focus in creating increased ownership has been focused almost solely on his proposal to divert Social Security taxes into individual accounts. We have heard nothing from the Administration about expanding ownership through the ESOP program. So, what is this Administration and, in particular, the Treasury Department's position on the role of employee ownership through ESOPs in the Administration's development of policies to create an ownership society?

**Answer**

The following information was provided to me by the Treasury Department:

The Administration strongly supports the increase in employee stock ownership and wealth accumulation for employees. ESOPs are a time-tested, tax-efficient method of achieving these goals. In many cases, equity ownership by employees increases productivity. Over the years, Congress has provided additional incentives to encourage the adoption of ESOPs, and in some cases, additional restrictions, to ensure that employee retirement security is enhanced. The Administration plans to continue to work with members to ensure that ESOPs continue to add to the economic security of American workers.

However, we must all work to ensure that ESOPs are used for their intended purposes. We must protect ESOPs from abuse by those whose primary purpose is other than employee equity ownership and wealth accumulation. For example, Congress has required that ESOPs not discriminate in favor of highly paid employees and that annual contributions to ESOPs be limited to certain levels. We must also be careful to avoid some of the dangers faced by employees whose retirement savings are concentrated too heavily in employer stock. These dangers have been painfully highlighted by recent business failures where employees' retirement savings were invested heavily in ESOPs. If the rules do not limit possible abuses, we may risk the loss of this policy tool to encourage employee ownership and retirement security because of the abuse of a few.

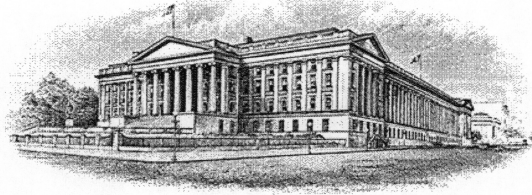
2. Over the past four years, the Bush Administration has joined Congress in Supporting the small business community in a variety of ways, including reducing their tax burden through across-the-board rate relief. More recently, however, the Treasury Department's Inspector General for Tax Administration (TIGTA) has proposed applying payroll taxes to all the net income of certain S Corporations, even when that income resulted from capital investment. Is the TIGTA's recommendation the position of the Department of Treasury, and do you believe that subjecting the net earnings of pass-through entities like S corporations to the payroll tax violates the long-standing principle that payroll taxes be applied to wage income?

**Answer**

The following information was provided to me by the Treasury Department:

The Administration believes that amounts received that are not attributable to services should not be subject to employment taxes. However, the Administration is seriously concerned with the size of the employment tax gap. As the Treasury Department's Inspector General for Tax Administration pointed out in his testimony before the Senate Finance Committee, single-owner S corporations have been designed to shelter personal services from employment taxes, even in cases where the corporation involves little or no capital investment. The Administration shares TIGTA's additional concern with the impropriety of an S Corporation owner being subject to lower Social Security and Medicare taxes than a sole proprietor or

partner in a partnership. In evaluating any legislative proposal to change the law with respect to employment taxation of S corporation shareholders, the Administration will consider these competing principles of equity among business owners and the need to apply employment taxation to compensation for services.



**DEPARTMENT OF THE TREASURY  
OFFICE OF PUBLIC AFFAIRS**

Embargoed Until 10 a.m. EDT  
July 20, 2005

CONTACT: Tony Fratto  
(202) 622-2910

**Statement of Sandra L. Pack  
Nominee for Assistant Secretary for Management  
U.S. Department of the Treasury  
before the Senate Finance Committee**

Chairman Grassley, Ranking Member Baucus and members of the Senate Finance Committee, thank you for taking the time to consider my nomination. I am honored that President Bush has nominated me to serve in this position. I also thank Secretary Snow for his leadership and support.

Mr. Chairman, I would like to introduce my husband, Randall, to you and to the members of the Committee.

Now, I would like to tell you a little bit about my background and why I believe that I am qualified for this position. I am a Certified Public Accountant. Throughout my professional career, including twelve years in public accounting, two years as Assistant Secretary of the Army for Financial Management and Comptroller, and two terms as Chief Financial Officer for the Bush/Cheney presidential campaign committees, I have demonstrated a commitment to the principles of sound financial management. I understand the need for the principles and practices espoused by my profession, such as, strong internal controls, segregation of duties, planning, budgeting, and reliable accounting and financial reporting systems. These principles enable sound management and resource decisions.

If confirmed, while I will be serving in a new environment with the U.S. Treasury Department, I believe that my technical training and my previous work experience will provide the foundation needed for the challenge. I look forward to learning about the U.S. Treasury Department and determining how the principles with which I am familiar may be applied.

Mr. Chairman, thank you again for bringing me before this Committee.

SENATE FINANCE COMMITTEE  
STATEMENT OF INFORMATION REQUESTED OF NOMINEE

A. BIOGRAPHICAL INFORMATION

1. Name: (Include any former names used.)  
**Sandra Lee Pack, Sandra L. Pack, Sandy Pack  
Sandra Lee Tucker (maiden name)  
Sandra Lee Humphries (former marriage)**
2. Position to which nominated: **Asst. Secretary for Management, U.S. Treasury**
3. Date of nomination: **May 16, 2005**
4. Address: (List current residence, office, and mailing addresses.)  
**Residence and mailing address:  
538 Moorings Circle, Arnold, MD 21012  
Office address:  
Bush-Cheney '04 Compliance Committee  
P.O. Box 684  
Arlington, VA 22216**
5. Date and place of birth: **September 22, 1948—Denver, CO**
6. Marital status: (Include maiden name of wife or husband's name.)  
**Married to Randall W. Pack**
7. Names and ages of children: **Amelia Anne Humphries, 38 years old**
8. Education: (List secondary and higher education institutions, dates attended, degree received, and date degree granted.)
  - **Bryan Adams High School, Dallas, TX—Sept. 62-June 66—  
Diploma granted June 66**
  - **Foothill College, Los Altos, CA—Sept. 70-Mar. 71—no degree**
  - **DeAnza College, Cupertino, CA—Jan. 77-Sept. 79—no degree**
  - **Georgia State University, Atlanta, GA—Sept. 82-Dec. 82—no degree**
  - **College of Notre Dame of Maryland, Baltimore, MD—Sept. 87-Aug. 90—  
B.A. Business Degree granted Aug. 90**
  - **Johns Hopkins University, Baltimore, MD—Feb. 91-May 91—no degree**

9. Employment record: (List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment.)
- **06/87-06/94, Director of Small Business Consulting, Ernst & Young, Baltimore, MD**
  - **06/94-03/95, Director, Planning & Operations, MicroProse Division of Spectrum Holobyte, Inc., Hunt Valley, MD**
  - **03/95-05/95, Unemployed**
  - **05/95-08/96, Director of Treasury, Gramm for President, Inc., Washington, DC**
  - **08/96-11/01, Owner, Sandra L. Pack, CPA, LLC, Arnold, MD**
  - **01/00-11/01, Director of Treasury, Bush-Cheney 2000, Inc., Austin, TX**
  - **11/01-12/03, Assistant Secretary for Financial Management & Comptroller, U.S. Army (Dept. of Defense), Pentagon**
  - **12/03-Present, Chief Financial Officer, Bush-Cheney '04, Inc., Arlington, VA**
10. Government experience: (List any advisory, consultative, honorary, or other part-time service or positions with Federal, State or local governments, other than those listed above.) **None.**
10. Business relationships: (List all positions held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, other business enterprise, or educational or other institution.)
- Consulting services rendered to clients of Sandra L. Pack, CPA, LLC:**
- Bush-Cheney 2000, Inc. (2004)**
  - Bush for President, Inc. (1999)**
  - American Dream Political Action Committee (1997-2001)**
  - Republican Leadership Council, Inc. (1997-2001)**
  - Foundation for Responsible Government, Inc. (1997-2001)**
  - Pioneer PAC—Kasich Leadership PAC (1998-1999)**
  - Kasich 2000—Presidential Exploratory Comm. (1999)**
  - Cardinal Health, Inc. PAC (1998-1999)**
  - Defenders of Miner's Creek (1997-2001)**
  - Dole for President, Inc. (1996-1997)**
  - Gram for President, Inc (1996-1997)**
11. Memberships: (List all memberships and offices held in professional, fraternal, scholarly, civic, business, charitable, and other organizations.)
- Memberships:**
- American Institute of Certified Public Accountants (since 1991)**
  - Maryland Association of Certified Public Accountants (since 1991)**
  - Maryland State Board of Accountancy (since 1991)**
  - Association of the United States Army (since 2001)**
  - Republican National Committee (since 1996)**



**Maryland Republican Party (since 2005)**  
**Summit County Historical Society (since 1997)**  
**Frisco Historical Society (since 1997)**  
**Bill's Ranch Neighborhood Association, Frisco, CO (since 1997)**

13. Political affiliations and activities:
- a. List all public offices for which you have been a candidate. **None.**
  - b. List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.
    - Member, Republican National Committee**
    - Member, Maryland Republican Party**
    - Director of Treasury, Gramm for President, Inc.**
    - Consultant, Dole for President, Inc.**
    - Director of Treasury, Bush-Cheney 2000, Inc.**
    - Chief Financial Officer, Bush-Cheney 04, Inc.**
    - Consultant, Kasich 2000, Inc.**
  - c. Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of \$50 or more for the past 10 years.
 

2005	\$ 50	<b>Maryland GOP</b>
2003-2004	\$ 200	<b>Bush-Cheney '04</b>
2004-2005	\$ 240	<b>Republican National Committee</b>
2002-2004	\$ 450	<b>Friends of Wayne Gilchrist</b>
2003-2004	\$ 200	<b>Friends of Jeb Hensarling</b>
1999	\$1,000	<b>Bush for President, Inc.</b>
1999	\$ 110	<b>Natl Republican Senatorial Comm</b>
1998	\$ 466	<b>American Dream PAC</b>
1996	\$1,000	<b>Gramm for President, Inc.</b>
14. Honors and Awards: (List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals, and any other special recognitions for outstanding service or achievement.)  
**Nancy Schloss Award for Outstanding Business Student, Notre Dame College (1991)**  
**Distinguished Civilian Service Medal, Presented by the Secretary of the Army (2003)**  
**Distinguished Public Service Medal, Presented by the Secretary of the Navy (2003)**
15. Published writings: (List the titles, publishers, and dates of all books, articles, reports, or other published materials you have written.) **During my tenure as Assistant Secretary of the Army for Financial Management and Comptroller (2001-2003) I wrote several articles for U.S. Army publications:**
- **"Resource Management"—published by the Assistant Secretary of the Army for Financial Management and Comptroller—multiple articles 2002-2003**

- “Annual Financial Statements of the United States Army”—Letter from the Assistant Secretary for Financial Management and Comptroller, 2002-2003.

16. Speeches: (List all formal speeches you have delivered during the past five years which are on topics relevant to the position for which you have been nominated. Provide the Committee with two copies of each formal speech.) **During my tenure as Assistant Secretary of the Army for Financial Management and Comptroller (2001-2003) I gave multiple speeches. Only two of those speeches were delivered from formal, prepared remarks and I have attached copies of those. The remainder were delivered extemporaneously from outlines and mostly addressed the following Army goals:**
- Looking after the Army family (soldiers, civilians and family members)
  - Transforming the Army’s financial management community to be more responsive
  - Striving to make funding equal to requirements and removing funding as an inhibiting factor in prosecuting the war effort
  - Establishing and maintaining systems and controls adequate for producing an auditable set of financial statements
  - Ensuring an adequate system of management and cost controls
  - Leveraging funding to get the most from every dollar
  - Undertaking succession planning to strengthen the bench, ensuring ample, qualified officers and civilian staffing for the Army’s financial management community in the future.
17. Qualifications: (State what, in your opinion, qualifies you to serve in the position to which you have been nominated.)

**I am a Certified Public Accountant with the experience and the attitude needed to succeed in this job. Throughout my professional career, including twelve years in public accounting, I have demonstrated a commitment to the principles of sound financial management. I understand the need for the principles and practices espoused by my profession, such as, strong internal controls, segregation of duties, planning, budgeting, and reliable accounting and financial reporting systems. These principles enable sound management and resource decisions. Listed below are some of the accomplishments that I have achieved in previous positions:**

- *Director of Treasury for Bush-Cheney 2000, Inc.*—received a clean audit opinion from the Audit Division of the FEC.
- *Chief Financial Officer for Bush-Cheney 2004, Inc.*—on track to receive a clean audit opinion from the Audit Division of the FEC.
- *Assistant Secretary of the Army (Financial Management & Comptroller)*--Nov. 2001 – Dec. 2003—Served as principal advisor to the Secretary of the Army on all Financial Management Activities and Operations, including:
  - Managed a budget, which grew from \$88.5 billion in fiscal year 2002 to \$135 billion in fiscal year 2004, and its financial management community consisting of more than 13,000 military and civilian personnel worldwide;

- Oversaw funding requests for Operations Noble Eagle, Enduring Freedom and Iraqi Freedom;
- Focused Army financial management leadership on tightening internal controls, reducing waste and promoting more efficient use of resources;
- Set the Army on the path toward attaining an unqualified audit opinion;
- Promoted a positive work environment through career development and advancement among military and civilian staff by “building the bench.” Personally visited troops in Iraq, Kuwait, Germany, South Korea, and various bases in the U.S. as well as visiting combat-wounded soldiers at Walter Reed Army Medical Center.
- Lectured at academic institutions, including the US Army War College, the US Military Academy, the Joint Services Professional Development Institute, the Army Management Staff College, and the Harvard Business School’s Dynamic Women in Business Conference. Hosted and began yearly symposia for the Army Internal Review and the Army Resource Management communities.

**While I will be serving in a new environment with the U.S. Treasury Department, I believe that my technical training and my previous work experience will provide the foundation needed for the challenge. I look forward to learning about the U.S. Treasury Department and determining how the principles with which I am familiar may be applied.**

#### B. FUTURE EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, associations, or organizations if you are confirmed by the Senate? If not, provide details. **Yes.**
2. Do you have any plans, commitments, or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, provide details. **No.**
3. Has any person or entity made a commitment or agreement to employ your services in any capacity after you leave government service? If so, provide details. **No.**
4. If you are confirmed by the Senate, do you expect to serve out your full term or until the next Presidential election, whichever is applicable? If not, explain. **Yes.**

#### C. POTENTIAL CONFLICTS OF INTEREST

1. Indicate any investments, obligations, liabilities, or other relationships which could involve potential conflicts of interest in the position to which you have been nominated. **None--please refer to the enclosed SF278, Public Financial Disclosure Report.**

4. Have you ever been convicted (including pleas of guilty or nolo contendere) of any criminal violation other than a minor traffic offense? If so, provide details.  
**1973—Arrested and paid a fine for shoplifting.**
5. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination. **Passed all parts of the CPA exam on the first sitting.**

E. TESTIFYING BEFORE CONGRESS

1. If you are confirmed by the Senate, are you willing to appear and testify before any duly constituted committee of the Congress on such occasions as you may be reasonably requested to do so? **Yes.**
2. If you are confirmed by the Senate, are you willing to provide such information as is requested by such committees? **Yes.**

Questions for the Record for Sandra Pack  
July 25, 2005

**From Senator Baucus:**

**1. Describe how you provided accountability to the American public during your tenure at the Army. Give me some concrete examples of challenges you faced and how you resolved them in the best interests of the American people.**

During my tenure as assistant secretary for the Army, I led development of: the Army budget for fiscal years 2003 and 2004; supplemental appropriations requests that were necessary to fight the Global War on Terrorism in fiscal years 2002, 2003, and 2004; and the Army's long-range, six-year spending plan for fiscal years 2004-2009. The Army's appropriated funds increased from \$88.5 billion in FY 2002 to \$135 billion in FY 2004. In addition to managing standard Army financial activities, I oversaw funding for Operations Noble Eagle, Enduring Freedom, and Iraqi Freedom. This wartime situation required precise and intricate fiscal maneuvering to cover unanticipated expenses not incorporated into the original budget requests or appropriations bills. More than \$1.5 billion was redirected without permanent detriment to day-to-day Army operations or long-term programs; the Army eventually received restitution for every dollar shifted and spent in support of the war effort.

One of my priorities during my Army tenure was the need for strong internal controls and I focused Army financial management leadership on tightening and strengthening controls. My objective was to reduce fraud and waste and to promote more efficient use of existing resources. In addition, during my tenure, the Army made strides toward attaining an unqualified audit opinion. We developed a detailed plan that identified all the actions that needed to be taken and the deadlines for completing those actions in order to achieve an unqualified audit opinion by FY 2007. We accelerated conversion to a unified financial system that replaced multiple software programs used by the active and reserve components. We directed a Defense Department pilot project to establish a general ledger accounting system and participated in the selection and development of a future DoD pay module.

Examples of challenges faced and resolved would be two Army programs that were in trouble and that were the object of congressional inquiry and that we corrected: the Army Travel Card and the Army Purchase Card. For the Travel Card, we worked with Congress on legislation that enabled mandatory split disbursement, salary offset, and removal of cards from those who did not need them and did not use them correctly. In addition, we increased oversight through data mining systems that helped to identify and detect fraud and abuse; we greatly decreased the number of cardholders; adjusted positive control; and reduced payment delinquency. For the Purchase Card: we strengthened oversight of the more than \$3 billion worth of transactions executed via this program; lowered the number of cardholders by 40 percent; established new operating procedures; increased rebates by decreasing file turn time; and reduced abuse.

**2. What is your management philosophy? How do you keep control of a large organization like the Army or the IRS? How do you motivate such a large organization when change is necessary? And, how do you measure that change so you know progress has been made?**

My grandfather, a foreman of road construction crews in the Colorado Rocky Mountains, developed an effective technique for managing people: "Find out what people like to do and let them do it." In short, that is what I have tried to do in each management position that I have held. I believe in treating people with respect and consideration and in promoting harmony and teamwork in the workplace.

During my Army tenure, I believe that we fostered a positive work environment throughout the financial management directorate and that we augmented the potential for career development and advancement among military and civilians. One of my priorities was "building the bench," i.e. growing the next generation of leaders. Strong leaders, quality managers, a strong chain of command, and clarity of mission were the keys to managing the Army's financial management community of some 13,000 military and civilian personnel worldwide. During my tenure we promoted one major general to lieutenant general; one brigadier general to major general; two colonels to brigadier general; and four GS-15 civilians to the Senior Executive Service. Additionally, three colonels assumed brigade command and one became a school commandant. Three lieutenant colonels took battalion command and two were sent to the Senior Service College. One colonel and one SES were promoted to resource manager for a major command. One lieutenant colonel and two civilians were decorated for heroism. Two members of the Senior Executive Service were given the Presidential Rank Award.

In addition, in order to ensure a successful future for the Army financial management we brought 133 new interns into the Financial Management career field.

I personally visited troops in Iraq, Kuwait, Germany, South Korea, and at various bases within the continental United States. I lectured and met with students at the U.S. Army War College, the United States Military Academy, the Joint Services Professional Development Institute, and the Army Management Staff College. I participated in the 2003 Harvard Business School Dynamic Women in Business Conference.

In addition, I hosted symposia for the Army Internal Review and the Army Resource Management communities in which we brought in speakers from academia, other government agencies, and corporate America to share their experiences about best industry practices.

With regard to motivating and measuring change in large organizations, of course, the methods employed should be tailored to the scope and complexity of change desired. In general, I would suggest the following actions:

- Identify and articulate the need for change.

- Enlist suggestions and help in devising a plan for change and how best to execute that plan from those who will be called upon to implement the change.
- Include in the plan performance standards (metrics) and timelines.
- Measure performance against those standards and timelines.
- Publish results and keep all parties informed about progress.

**3. This committee has stressed to the IRS that it needs benchmarks and goals, as well as reliable performance measures, so we can tell whether they are doing a good job or not. Yet, just yesterday, a GAO report on IRS productivity was released that found the IRS still falls short at measuring its own performance. As a result, it isn't able to make informed decisions about the use of its resources, whether its programs and processes are working, or its budget needs. With a tax gap of about \$350 billion each year, this situation cannot continue. What would you do to ensure that the IRS sets goals and reliable performance measures and then follows up on them? How will you hold the IRS accountable to make sure it is making the best use of taxpayer money and limited resources? How would you hold IRS management accountable for their actions and performance?**

I agree that establishing performance standards and measuring performance against those standards are critical to improving any organization, including the IRS. That said, finding the optimum methods for measuring performance and productivity can be a complicated matter. This is a challenge not just for the IRS but for many other federal agencies, including the U.S. Army. During my Army tenure, we corrected problems with the purchase card and travel card programs. One of the tools we used in accomplishing this was to institute a system of metrics so that we could measure the progress that we were making. These metrics were tracked by major command so that we could show the individual commanders how they were doing and enable them to monitor their own progress. If confirmed, I will bring to bear all of my prior professional experience, including that gained at the U.S. Army, to assist Commissioner Everson and the Treasury leadership in accomplishing objectives for better management and accountability, and I hope to be able to work closely with the Finance Committee on these issues.

**4. What do you see as the IRS's greatest challenge? What would be your priorities in the first year? Long term? What do you want your legacy at Treasury to be?**

Based on the meetings and briefings that I have received in preparation for the hearing, my preliminary opinion is that modernization of IRS systems, closing the tax gap, finding the optimum balance between enforcement and service, and how resources should be allocated are important IRS priorities. If confirmed, I will work with this Committee and I will support Commissioner Everson in his efforts to strengthen IRS performance and productivity measures, informed by the recent GAO report findings.

In addition, if confirmed, I will confer with Secretary Snow and agree upon a set of priorities and the role that I will perform in helping to accomplish those priorities. I will apply my prior experience in government and the private sector to support the President's priorities. I understand that the Assistant Secretary for Management oversees Department-wide management programs, including human resources, financial management, and the budget. I will work closely with the Secretary, the Departmental Offices, and the Treasury bureaus to ensure the Department's goal of achieving more with the resources available.

With regard to a legacy, during my tenure as Assistant Secretary of the Army, I emphasized value-creation, customer focus, and results. Should I be confirmed and serve at the U.S. Treasury, I will strive to leave a legacy at the Department of the Treasury that reflects these same priorities. In addition, I would like to set the agency on a path for stronger controls, more efficiency, and less waste, in other words, getting the most value for the money spent. In addition, I would like to ensure high morale and implement effective succession planning that helps to mitigate the impending "brain drain" that Treasury and most other U.S. Government agencies are facing.

**5. Let's talk about some specific issues at the IRS. Commissioner Everson likes to use the equation, "Service + Enforcement = Compliance". In your opinion, what is the right mix of service and enforcement? Do you think that 68 Taxpayer Assistance Centers should be closed, as the IRS has proposed? How will taxpayers who live in remote areas with no internet access get service? Or those who don't hear so well and can't use the telephone? How will you fulfill the IRS's mission statement to "[P]rovide America's taxpayers top quality service by helping them understand and meet their tax responsibilities ..." when the Administration proposes to cut funding for taxpayer service?**

I support Commissioner Everson's position that an effective tax administration system achieves a balance between service and enforcement to enable taxpayers to comply with the tax laws. As a general proposition, I support proposals made by President Bush in his budget request. In the context of a tight overall domestic budget, I believe it is very difficult to strike the right balance and find the most efficient means of reaching the dual goals of enforcement and service. Since I am not confirmed and on the job right now, I cannot speak with authority regarding those specific details that you raise. If confirmed, I will confer with Commissioner Everson and Secretary Snow and I will bring to bear all my previous professional experience to assist Treasury leadership as needed in addressing these complex matters. In addition, I hope to be able to work with this Committee and I pledge to bring an open mind to the question of how best to improve service to the taxpayer in the most accessible and cost-effective manner possible.

**6. Recent IRS estimates put the tax gap, the difference between what taxpayers owe and what they pay, at \$350 billion per year. With limited resources and competing challenges at the IRS, what do you think should be done to close this gap? How would you establish priorities among income taxes or**



**employment taxes, nonfilers or underreporters? What about tax shelters? What should the IRS be doing to shut them down and make sure they don't come back? And, how should we deal with offshore tax havens that are being used increasingly to avoid or evade US taxes?**

As an American taxpayer, I am happy to pay my fair share of income taxes. Hence, I would like all other American taxpayers to do the same. The Treasury Department has informed me that they are updating the estimate of the tax gap and what the component parts are. I am not in a position as the President's nominee for the Assistant Secretary for Management at Main Treasury to offer an opinion on the relative merits of the detailed areas of Internal Revenue Service tax enforcement that you outline. In the context of budgetary resources, however, I believe that the tax gap is an important issue and I expect to work with the IRS on this matter, should I be confirmed. It is my understanding that the President's Budget increases IRS enforcement activities by 7.8 percent for FY 2006, and these increased funds would support the continued focus on high-income individuals and businesses that participate in abusive tax transactions. If confirmed, I would hope to work closely with the Committee and the Congress regarding the Treasury and IRS funding levels in these areas.

**7. The Administration's proposed budget for IRS technology is lower each year and the IRS has cut way back on its information systems modernization. What role do you think technology plays in tax administration? How would you prioritize funding for e-file and other IRS applications?**

Sound information technology is an essential component in effective and efficient tax administration. If confirmed, I will support Secretary Snow and Commissioner Everson in establishing priorities for further investment in the information technology infrastructure so that the money invested in information systems modernization is spent in a way that minimizes development risk and delivers best value for taxpayers.

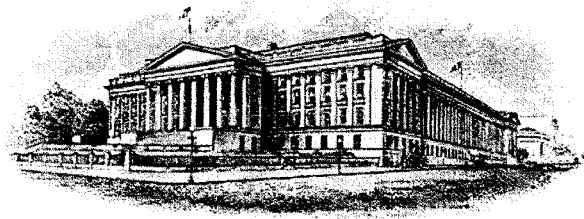
**8. A large percentage of the IRS workforce will be eligible to retire in just a few short years, taking with it a lot of knowledge and expertise. What steps would you take in response to this "brain drain" to ensure that our system of tax administration doesn't suffer? How do you keep employee morale high so they might stick around a while longer?**

I understand that, as a function of the role of Assistant Secretary for Management, I would be responsible for the Department's Human Capital program. Should I be confirmed, I will support the IRS in its efforts to address the "brain drain" and to build upon its existing programs to:

- o Identify the technical and core competencies needed to ensure the right mix of talent.
- o Develop workforce planning models to anticipate attrition and employee movement and ensure that hiring plans and models address potential losses.

- Use hiring tools to assess external hires and determine whether they have the requisite skills needed for job success.
- Implement mentorship programs, for example, using the senior tax administration technical staff as part of the technical instructor cadre, systematically transferring essential knowledge and skill to new hires.
- Develop leadership succession programs to ensure that the IRS retains a cadre of highly qualified candidates to replenish managerial and executive vacancies.
- Foster employee engagement by encouraging the IRS to:
  - Provide the tools and training that support the competencies needed for the workforce of tomorrow;
  - Promote a work environment that optimizes the use of talent, provides equal opportunity to all, and encourages employees to excel through pay for performance and other incentive programs;
  - Develop a performance management system that rewards high performers and encourages employees to excel;
  - Encourage work life flexibilities such as telework, alternate work schedules, and maxiflex; and
  - Solicit employee suggestions in a structured manner (such as Employee Survey and Focus Groups) and take appropriate action to address employees' concerns.

All of these actions being implemented by the IRS are consistent with initiatives already underway at the Defense Department, including the U.S. Army, to address future workforce shortfalls.



**DEPARTMENT OF THE TREASURY  
OFFICE OF PUBLIC AFFAIRS**

Embargoed Until 10 a.m. EDT  
July 20, 2005

CONTACT: Tony Fratto  
(202) 622-2910

**Statement of Randal K. Quarles  
Nominee for Under Secretary for Domestic Finance  
U.S. Department of the Treasury  
before the Senate Finance Committee**

Chairman Grassley, Senator Baucus, members of the Committee, thank you for giving me this opportunity to appear before you today. I am honored that President Bush has nominated me to serve as Under Secretary of the Treasury for Domestic Finance, and I am grateful to have the privilege of your consideration. I am also very grateful for the support of my family here today -- my wife, Hope Eccles, and my parents Ralph and Beverly Quarles -- and even more so for three family members whose attention spans are still a little short to attend a Senate hearing but who have put up with a lot from their father's enthusiasm for public service: my young sons Randal and Spencer, and our one-year-old daughter, Hope Jr.

The role of the Under Secretary of the Treasury for Domestic Finance is to advise the Secretary on issues related to capital markets and financial institutions, government fiscal policy and operations, governmental assets and liabilities, and related economic and financial matters. The Treasury Department is currently addressing some of the most crucial issues facing our country in each of these areas, and, if confirmed for this post, I would look forward to working closely with this Committee and the Congress across this full range of topics.

My professional career, over two decades in both the public and the private sector, has given me in-depth experience with the issues facing the increasingly global banking and capital markets and the challenges of sovereign finance. For nearly four years, I have served as the Assistant Secretary of the Treasury for International Affairs, where my responsibilities have included, among other things, advising on the international aspects of financial regulation and the structure of sovereign funding markets, as well as macroeconomic policy, exchange rate policy, trade and investment, and our participation in the International Monetary Fund and the World Bank.

Before that, I began my service in this Administration as the U.S. Executive Director at the IMF, representing the United States on the IMF's board during a time of stress for the international financial system.

In the private sector, I was a practicing Wall Street lawyer for nearly seventeen years, focusing on banking and financial matters. During that time, I helped some of the world's premier financial institutions think through their approach to an increasingly integrated financial system, to take practical steps to prepare for that integration, and to create legal structures to increase the efficiency of financial intermediation. Finally, this is not my first stint in Domestic Finance at the Treasury. I was also privileged to serve at the Treasury Department from 1991 to 1993, during the Administration of the first President Bush, working with the team that proposed the modern statutory framework for this ongoing transformation of the financial system.

If confirmed for this position, I believe my service in the role of Under Secretary would benefit from all of these experiences. I also want to note how much it will benefit from the extremely able Treasury staff that it has been my great honor to serve with now, in both the international and domestic areas, under three different Treasury secretaries. I want to thank you again for the privilege of appearing before this Committee, and I want to thank Secretary Snow for the confidence he has displayed in me by supporting me for this position. I now look forward to answering any questions you may have.

**SENATE FINANCE COMMITTEE  
STATEMENT OF INFORMATION REQUESTED OF NOMINEE**

**A. BIOGRAPHICAL INFORMATION**

1. **Name:** (Include any former names used.)  

Randal Keith Quarles
2. **Position to which nominated:**  

Under Secretary (Domestic Finance)  
U.S. Department of the Treasury
3. **Date of nomination:**  

May 27, 2005
4. **Address:** (List current residence, office, and mailing addresses.)  

Homes: 4515 Dexter Street, NW  
Washington, DC 20007

1630 Yalecrest Avenue  
Salt Lake City, Utah 84105

Office: Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, DC 20220
5. **Date and place of birth:**  

September 5, 1957; San Francisco, California
6. **Marital status:** (Include maiden name of wife or husband's name.)  

Married; Clista Hope Eccles ("Hope")

7. **Names and ages of children:**

Randal Eccles Quarles – 6 years

Spencer Robert Eccles Quarles – 4 years

Emily Hope Eccles Quarles – 11 months

8. **Education:** (List secondary and higher education institutions, dates attended, degree received, and date degree granted.)

Yale Law School, J.D. (Attended 9/81 – 6/84; degree granted 1984)

Columbia College, A.B. (Attended 9/76 – 6/77; 1/80 – 6/81; degree granted 1981)

Brigham Young University (Attended 8/75 – 4/76; no degree)

9. **Employment record:** (List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment.)

Employer	Title	Location	Dates
U.S. Department of Treasury	Assistant Secretary for International Affairs	1500 Pennsylvania Avenue, NW, Washington, D.C.	4/02 - date
International Monetary Fund	U.S. Executive Director	700 19 <sup>th</sup> Street, N.W. Washington, D.C. 20431	8/01 – 4/02
Davis Polk & Wardwell	Partner	450 Lexington Avenue, New York, New York	6/94 – 7/01
Davis Polk & Wardwell	Associate	450 Lexington Avenue, New York, New York	1/93 - 6/94
U.S. Department of Treasury	Deputy Assistant Secretary for Financial Institutions Policy	1500 Pennsylvania Avenue, Washington, D.C.	2/92 - 1/93
U.S. Department of Treasury	Special Assistant to the Secretary of the Treasury	1500 Pennsylvania Avenue, Washington, D.C.	5/91 - 2/92
Davis Polk & Wardwell	Associate	1 Chase Manhattan Plaza, New York, New York	8/84 - 5/91
Davis Polk & Wardwell	Summer Associate	1 Chase Manhattan Plaza, New York, New York	5/83 - 9/83
Milbank, Tweed, Hadley & McCloy	Summer Associate	1 Chase Manhattan Plaza, New York, New York	5/82 - 9/82
Milbank, Tweed, Hadley & McCloy	Paralegal	1 Chase Manhattan Plaza, New York, New York	5/81 - 9/81

10. **Government experience:** (List any advisory, consultative, honorary, or other part-time service or positions with Federal, State or local governments, other than those listed above.)

None

11. **Business relationships:** (List all positions held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, other business enterprise, or educational or other institution.)

Partner of Davis Polk & Wardwell (law partnership)  
Partner of Two Percent Capital Partners (an investment partnership).

12. **Memberships:** (List all memberships and offices held in professional, fraternal, scholarly, civic, business, charitable, and other organizations.)

Organization	Position	Dates of Affiliation
Church of Jesus Christ of Latter-day Saints	Home Teacher (9/04 – date)	From birth
Association of the Bar of the City of New York	Member, Committee on Banking Law (4/95 – 9/98)	4/95 – date
American Bar Association	None	1/94 – date
Yale Club of New York City	None	5/95 – date
Salt Lake Country Club	None	9/97 – date

13. **Political affiliations and activities:**

- a. List all public offices for which you have been a candidate.

None

- b. List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

None

- c. Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of \$50 or more for the past 10 years.

Candidate	Amount	Year
Rosario Marin U.S. Senate	\$1,000	2004
Leadership PAC 2002	\$ 250	2001
Winston Wilkinson U.S. House of Representatives Republican Primary (Utah)	\$1,000	2001
John LaFalce U.S. House of Representatives General Election (New York)	\$ 250	2000
George W. Bush U.S. President Legal Fund (Recount)	\$1,000	2000
George W. Bush U.S. President Republican Primary	\$1,000	1999
Rick Lazio U.S. Senate General Election (New York)	\$1,000	2000
Bob Franks U.S. Senate General Election (New Jersey)	\$1,000	2000
Black America's PAC	\$ 50	2000
Dylan Glenn U.S. House of Representatives General Election (Georgia)	\$ 50	2000
Chuck Schumer U.S. Senate General Election (New York)	\$ 250	1999
Rudolph Giuliani U.S. Senate Exploratory Committee	\$ 250	1999
John LaFalce U.S. House of Representatives General Election (New York)	\$ 250	1998
George Pataki Governor General Election (New York)	\$1,000	1998



Rick Lazio U.S. House of Representatives General Election (New York)	\$ 250	1999
Rudolph Giuliani U.S. Senate Primary (New York)	\$ 250	1999
Rick Lazio U.S. House of Representatives Primary (New York)	\$ 250	1998
Alfonse D'Amato U.S. Senate General Election (New York)	\$ 500	1997
New Jersey Republican State Committee	\$ 250	1997
Janet DiFiore Westchester County Court General Election (New York)	\$1,000	1998
Robert Dole U.S. President General Election	\$1,000	1996
Robert Dole U.S. President Republican Primary	\$1,000	1996
Orrin Hatch U.S. Senate General Election (Utah)	\$1,000	1994

14. **Honors and Awards:** (List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals, and any other special recognitions for outstanding service or achievement.)

Treasury Department's Meritorious Service Award

A.B. degree awarded *summa cum laude*

Phi Beta Kappa

National Merit Scholar

Sterling Scholar (Utah)

15. **Published writings:** (List the titles, publishers, and dates of all books, articles, reports, or other published materials you have written.)

Title	Publisher	Date
"U.S. Law Considerations in Foreign Bank Acquisitions of U.S. Banking Institutions" in <i>Regulation of Foreign Banks</i>	Lexis Publishing	2000
"Door Opens Wider to E-Commerce for Financial Holding Companies"	International Financial Law Review	October 2000
"Financial Services Reform in the United States – An Analysis of the Gramm-Leach Bliley Act"	Davis Polk & Wardwell	March 2000
"International Banking Activities"	International Financial Law Review	October 1989
"A Religion of Clerks"	Sunstone Magazine	November 1980

16. **Speeches:** (List all formal speeches you have delivered during the past five years which are on topics relevant to the position for which you have been nominated. Provide the Committee with two copies of each formal speech.)

*I speak frequently, but most of my speeches are not reduced to writing and many have been on questions of international economics not directly related to the post for which I am currently nominated. I have set forth below a list of those speeches covering topics I believe related to my nomination, and have identified with an asterisk those for which I have prepared a written text. In addition, I have attached as Annex B a comprehensive list of all speeches I have a record of giving, similarly marked to show those with a prepared text, in case the Committee should wish to form its own view about which speeches are related to my nomination. To the best of my knowledge no written record exists of the speeches on either list not marked by an asterisk.*

\*Keynote Address to the U.S.-E.U. Financial Services Symposium sponsored by Harvard Law School, Eltsville, Germany, April 22, 2005

\*Remarks before the U.S.-Russia Banking Conference, April 15, 2005

\*Remarks before the Foreign Correspondent's Club of Japan, Tokyo, Japan – March 10, 2005

\*Keynote Address at Third Annual European Financial Services Conference, Brussels, Belgium – January 25, 2005

\*Keynote Address at NBER Conference on Capital Controls, Santa Barbara, CA – December 17, 2004

\*“The State of the Financial Sector in Japan”, Keynote Address at the US-Japan Financial Markets Symposium sponsored by Harvard Law School, Portsmouth, New Hampshire – October 22, 2004

Remarks on Remittances to Latin America to the Albuquerque Council of Credit Unions, Albuquerque, New Mexico – October 14, 2004

Address to the Annual Breakfast Dialogue of the Institute for International Bankers, Washington DC – October 4, 2004

“East Asian Financial Market Development and Regional Financial Initiatives”, Remarks at the Joint Conference on Asian Economic Integration of the Korean Institute for Economic Policy and the Institute for International Economics, Washington DC – February 11, 2004

\*Keynote Address on US-EU Cooperation Issues, Harvard Law School Symposium on Building the Financial System of the 21<sup>st</sup> Century, Armonk NY – November 14, 2003

Remarks to US-Japan Business Council Annual Meeting, Washington DC – November 3, 2003

Remarks at the New York Stock Exchange, New York, NY -- July 16, 2003

\*“Expanding Access to Credit: Opportunities for Bilateral Partnership”, Keynote Address at Brazil-US Private Sector Summit, US Chamber of Commerce, Washington DC – June 19, 2003

Luncheon Address to the Board of Trustees of the Institute of International Bankers, New York, NY – May 20, 2003

\*“The US-EU Positive Economic Agenda on Financial Markets Issues”, Remarks at the European Institute Transatlantic Seminar on Trade and Investment, Washington DC -- December 10, 2002

“Financial Services in World Trade Negotiations”, European Financial Forum, London, UK – November 27, 2002

“Financial Liberalization in the Western Hemisphere”, Address to the Latin American and Caribbean Chambers of Commerce, Washington DC – May 8, 2002

“Global Efforts to Combat the Financing of Terrorism”, Keynote Address to the Institute of International Bankers Spring Meeting, Washington DC – March 4, 2002

17. **Qualifications:** (State what, in your opinion, qualifies you to serve in the position to which you have been nominated.)

The Under Secretary of the Treasury for Domestic Finance is the chief adviser to the Secretary on domestic financial matters, including all matters related to the financial services sector, financial markets, credit policy, broad matters of federal, state and local finance (including the federal debt), and related economic and financial matters. He represents Treasury on these issues within the Administration, with Congress, and with the public. My experience is relevant in each of these areas. As Assistant Secretary of the Treasury for International Affairs, I have focused on issues related to a) the financial services sector and regulation, b) sovereign finance, and c) U.S. government credit policy. Before that, as a partner of one of Wall Street’s leading law firms, and as co-head of that firm’s Financial Institutions Group, I helped some of the world’s leading financial firms think through their approach to an increasingly globalized financial system, and was involved in some of the major transactions that have shaped that system in recent years. As a senior adviser to three different Treasury Secretaries in two different administrations, I know how the Treasury and interagency processes work, and how the Administration and Congress must interact on matters of economic policy. I believe this combination of experience in both the public and private sectors covering the financial services sector and federal finance makes me strongly qualified to serve in the office to which the President has nominated me.

#### B. FUTURE EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, associations, or organizations if you are confirmed by the Senate? If not, provide details.

I have no employment or business relationships except as an officer of the Treasury Department. If confirmed, I would vacate my position as Assistant Secretary, but would remain employed at the Treasury Department as Under Secretary.

2. Do you have any plans, commitments, or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, provide details.

No.

3. Has any person or entity made a commitment or agreement to employ your services in any capacity after you leave government service? If so, provide details.

No.

4. If you are confirmed by the Senate, do you expect to serve out your full term or until the next Presidential election, whichever is applicable? If not, explain.

Yes.

#### C. POTENTIAL CONFLICTS OF INTEREST

1. Indicate any investments, obligations, liabilities, or other relationships which could involve potential conflicts of interest in the position to which you have been nominated.

Any potential conflicts of interest have been identified and resolved in accordance with the terms and conditions of my ethics agreement with the Department of Treasury, which is documented by letter to Kenneth Schmalzbach, Designated Agency Ethics Official and Assistant General Counsel for General Law and Ethics.

2. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

Any potential conflicts of interest have been identified and resolved in accordance with the terms and conditions of my ethics agreement with the Department of Treasury, which is documented by letter to Kenneth Schmalzbach, Designated Agency Ethics Official and Assistant General Counsel for General Law and Ethics.

3. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat, or modification of any legislation or affecting the administration and execution of law or public

policy. Activities performed as an employee of the Federal government need not be listed.

None (other than as an employee of the Federal government)

4. Explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items. (Provide the Committee with two copies of any trust or other agreements.)

Any potential conflicts of interest have been identified and resolved in accordance with the terms and conditions of my ethics agreement with the Department of the Treasury, which is documented by letter to Kenneth Schmalzbach, Designated Agency Ethics Official and Assistant General Counsel for General Law and Ethics. Should any potential conflicts of interest arise in the future, I will consult with Treasury ethics officials.

5. Two copies of written opinions should be provided directly to the Committee by the designated agency ethics officer of the agency to which you have been nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position.

See enclosures.

6. The following information is to be provided only by nominees to the positions of United States Trade Representative and Deputy United States Trade Representative:

Have you ever represented, advised, or otherwise aided a foreign government or a foreign political organization with respect to any international trade matter? If so, provide the name of the foreign entity, a description of the work performed (including any work you supervised), the time frame of the work (e.g., March to December 1995), and the number of hours spent on the representation.

Not applicable.

**D. LEGAL AND OTHER MATTERS**

1. Have you ever been the subject of a complaint or been investigated, disciplined, or otherwise cited for a breach of ethics for unprofessional conduct before any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.

No

2. Have you ever been investigated, arrested, charged, or held by any Federal, State, or other law enforcement authority for a violation of any Federal, State, county or municipal law, regulation, or ordinance, other than a minor traffic offense? If so, provide details.

No

3. Have you ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.

No

4. Have you ever been convicted (including pleas of guilty or nolo contendere) of any criminal violation other than a minor traffic offense? If so, provide details.

No

5. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

None

**E. TESTIFYING BEFORE CONGRESS**

1. If you are confirmed by the Senate, are you willing to appear and testify before any duly constituted committee of the Congress on such occasions as you may be reasonably requested to do so?

Yes

2. If you are confirmed by the Senate, are you willing to provide such information as is requested by such committees?

Yes

**Senator Baucus**

**Questions for the Record for Mr. Quarles**

**Q: Last year, we raised the debt ceiling by \$800 billion. Unfortunately, with the huge deficits we are running, it is my understanding that we have to raise the debt ceiling again sometime this year. Would you tell us Treasury's best guess at this time as to when we will have to act by, even if Treasury uses all of the extraordinary measures available to it?**

**A:** The deficit is currently declining more rapidly than originally projected. The Mid-Session Review, released earlier this month, projected a FY 2005 deficit of \$333 billion or 2.7% of GDP, \$94 billion less than forecast in February. At 2.7% of GDP the FY 2005 deficit would be smaller than the deficits in 15 of the last 25 years and represent faster than expected progress toward the President's goal of cutting the deficit in half by 2009 from its FY 2004 projected peak of \$521 billion, or 4.5% of GDP.

Given these developments, the U.S. Government is not projected to hit the debt ceiling for some time, so it is difficult to determine the exact date it will be reached. The Treasury Department is reasonably confident that the debt limit will not be reached in 2005. Their best estimate is currently the first quarter of calendar year 2006.

