

February 6, 2018

To: Doyle Bartlett, Greg Mesack, Chris McCannell, Travis Johnson
From: Ellen Lamb
Re: House Financial Services Committee hearing on the Financial Stability Oversight Council

The House Financial Services Committee heard [testimony](#) this morning from Secretary of the Treasury Steven Mnuchin on the [annual report of the Financial Stability Oversight Council](#).

Chairman Jeb Hensarling welcomed the Secretary, noting it was his first appearance in the House since the enactment of the tax reform law — “truly, truly historic.” He said “the economy is starting to take off,” and that consumer optimism abounds, despite the equity markets “swooning” yesterday. “We have always known that the Fed would face significant challenges in unwinding its balance sheet when the economy took off,” Chairman Hensarling said. He cited growth in employment and wages as evidence of a continuing, Trump-based recovery. He pointed to recent announcements from JPMorganChase, Comerica, Nationwide, Visa, and BB&T about bonuses, wage increases and increases in lending and investment.

Tax reform, however, is not enough, he said. Companies are still hamstrung by unnecessary regulation. The FSOC has an important role to play, but can harm the economy through the designation of SIFIs. He said that the FSOC had “eviscerated” GE Capital, and would have done the same to MetLife.

Rep. Maxine Waters (D-CA), the Committee’s ranking member, also welcomed Secretary Mnuchin. She expressed concern that the Trump administration seems determined to remove all nonbanks from FSOC supervision regardless of any threat they might pose to the economy. She pointed to AIG as an example of a nonbank that needed greater oversight. She asked the Secretary to address several outstanding inquiries from Committee Democrats, particularly about the finances of President Trump, his family members, and several Administration officials. Rep. Waters said that she and her colleagues had asked for information about this “several times,” but have received no reply. They want to know about the President’s financial ties to Russia, but Secretary Mnuchin has not answered any of three letters pursuing these inquiries. The reply they did receive to another query directed the members to ask other House Committees for this information.

Rep. Waters also expressed concern about the Administration’s failure to act on sanctions imposed by a nearly unanimous House vote. She said that the President’s failure to act advances the interests of Putin and Russia over those of the American people. She said she hoped Secretary Mnuchin would answer these questions today.

Rep. Blaine Luetkemeyer (R-MO), chairman of the Financial Institutions subcommittee, said that he was happy about the progress they'd made on taxes and regulatory reform, but that much remains to be done. Regulation should be "responsible and tailored." It is impossible to purge risk from the system, Luetkemeyer said, and regulators should not try. He said that the FSOC needs to become a more thoughtful body.

Rep. Dale Kildee (D-MI) said that what had happened in his hometown of Flint was an example of what happens when we don't invest in older industrial cities and towns. The Flint water crisis should be a "wake-up call" for the entire country. Recent changes in the tax code, he said, will hurt many of these communities. The changes in the tax code are already being used to justify cuts to programs that are necessary for revitalization. "That is not acceptable, and there's no way to justify that."

Rep. Bill Huizenga (R-MI) said that his guest at the State of the Union Address had been a fourth-generation barber who sees opportunities for growth because of the new tax law. He sees what's happening on Wall Street as a technical correction, not a fundamental change that will affect Main Street.

Chairman Hensarling introduced Secretary Mnuchin. He said that a vote series was likely to interfere with the hearing, but the Secretary had agreed to stay until 1:30.

Secretary Mnuchin thanked the Committee for the invitation. He said that sustained economic growth was one of his top priorities, and that the past year had delivered on this. The FSOC annual report is an important vehicle for identifying risk and opportunities for growth, Secretary Mnuchin said. The report recommends that agencies address outdated regulations, unnecessary overlaps, and the opportunity to tailor supervision to specific institutions. Significant concerns remain about cybersecurity risks, and the report recommends the creation of a private-sector council to collaborate with regulators on ways to mitigate these risks. He said that last year's tax reform is already having a positive income on the economy and on corporate America.

Turning to Treasury's specific priorities, Secretary Mnuchin commended the Committee's work on regulatory burden relief and reform, including HR 10. He encouraged the Senate and House to work together to move this legislation forward. He urged Congress to act quickly to increase the debt limit. He voiced support for [FIRRMA](#)'s approach to CFIUS reform. He said that Treasury would continue to act against malicious actors, including cybercriminals and rogue regimes like North Korea, Iran, and Venezuela.

On housing finance, he said that indefinite conservatorship for Fannie and Freddie is neither sustainable nor desirable. The administration is committed to balancing support for homeownership with protecting the taxpayers.

Q&A

Chairman Hensarling noted that outgoing Federal Reserve Board Chairman Janet Yellen had said that equity values were “quite high,” and that there were potential dangers. He thought that was a strange thing for her to say on her way out the door. “Clearly markets have been roiled,” he said, so what’s going on?

Secretary Mnuchin said that Treasury is very focused on long-term economic growth, and the Administration’s policies are very positive for this. The stock market is still up significantly since Trump’s election, and will be fine in the long run.

Chairman Hensarling led Secretary Mnuchin through a series of questions about the need for housing reform, getting Mnuchin to acknowledge that in the absence of reform, the President will appoint a new FHFA director next year; that the FHFA Director has sweeping powers, including the power to discontinue HARP; that the FHFA Director could also suspend contributions to the housing trust fund if those would make Fannie and Freddie unstable; and that the FHFA Director can choose not to enforce GSE’s statutory housing goals if he finds them unfeasible.

Chairman Hensarling noted that only Prudential remains designated as a systemically important financial institution. Reminding the Secretary that FSOC must re-evaluate this status annually, he asked when Prudential was last evaluated. Secretary Mnuchin said this would happen in the near future, but hasn’t happened recently.

Chairman Hensarling said that the court had found the SIFI designation process for MetLife “fatally flawed,” and asked whether this was the same process used for Prudential. Secretary Mnuchin said he couldn’t comment, but FSOC is revising its guidelines for designation. Chairman Hensarling said that he’s looking forward to that, especially the addition of a cost-benefit analysis.

Ranking member Maxine Waters (D-CA) asked for an additional five minutes for questioning, which the Chairman granted. Rep. Waters asked about her most recent letter to the Treasury about its actions on the sanctions authorized against Russia. She questioned Secretary Mnuchin: did he believe the intelligence agencies’ findings that Russia interfered with the 2016 elections? Did he believe the prediction that these interferences will likely recur in 2018? Secretary Mnuchin said that he did. Why then, Rep. Waters asked, was Treasury letting the law’s deadlines come and go with no action? She noted that the law allows the President to waive and delay the sanctions, but the Committee has received no official notice that any sanctions have been enacted, waived, or delayed. The President had six months to determine who was responsible, and impose sanctions accordingly. These deadlines have passed. She asked Secretary Mnuchin to explain this.

Secretary Mnuchin said that one part of the sanctions requirements had been delegated to the State Department, so he couldn't comment on that. Treasury delivered its report naming corrupt oligarchs on time, and sanctions will be coming out of that report. Rep. Waters asked who delegated the other part of the sanctions list; Secretary Mnuchin said that the President had the authority to delegate this to the State Department, and did so.

Rep. Waters repeated that nothing has been done on the required sanctions, not even a statement of waiver or delay. Secretary Mnuchin said that Treasury had done lots of work, and sanctions would be issued. He said that he couldn't comment on the State Department's work. He suggested that Rep. Waters look at the classified report on the oligarchs, which he said was "incredibly detailed," and is being used to develop sanctions. "I assure you there will be sanctions."

Rep. Waters said, "The Congress of the United States does not know what you are doing." They did not expect classified responses, she said. She encouraged Secretary Mnuchin to encourage the President to declassify this information, "just as he declassified the Nunes memo." She asked whether the Treasury's unclassified list was "basically [the Forbes report](#)." Secretary Mnuchin acknowledged that the information was "developed from open sources," but added that the classified report has more information.

Rep. Waters asked whether Secretary Mnuchin was troubled by the timing of last week's meetings between CIA Director Mike Pompeo and Russian officials who are subject to US sanctions and European sanctions. Secretary Mnuchin said that he was not, and the timing was just coincidental.

Rep. Bill Huizenga (R-MI) reminded his colleagues that they can go see classified information, and that the Secretary had offered briefings. He praised the recent economic growth in his district, and scoffed at the idea that President Trump had inherited a great economy. He noted that the number of public companies and the number of IPOs have declined significantly over the past ten years, and asked Secretary Mnuchin to name the three top impediments to IPOs. Secretary Mnuchin said that he appreciated the work Rep. Huizenga is doing on capital markets. He said that the report goes through several ideas that would make it easier for companies to access capital markets.

Rep. Huizenga noted that the Volcker Rule has had a chilling effect on liquidity, and said that determining whether an activity is market-making or proprietary investing can be almost impossible. He asked whether Secretary Mnuchin agreed with this, and the Secretary said that they're working with the regulators on better definitions. Rep. Huizenga asked whether the question would be best left to a single regulator, but Secretary Mnuchin did not agree. (He clarified this reply later in the hearing.)

Rep. Huizenga asked about a Michigan-based energy company that owns an ILC in Utah, and is being treated as a bank holding company so is subject to the Volcker

Rule. He asked whether it would pose a systemic risk to exempt companies like that from the Volcker Rule. Secretary Mnuchin said it would not.

Rep. Blaine Luetkemeyer (R-MO) gave anecdotal evidence that small businesses in his district are using tax cuts to give employees bonuses and hire more people. He asked about the report's recommendation for a private-sector council to advise the FSOC on data security/cybersecurity issues — what is FSOC doing now? Secretary Mnuchin said that they are very focused on this issue, and that protecting the financial infrastructure is a critical concern. Various regulators must work together, pool resources, and they must develop public-private partnerships to identify threats, share information and respond to crises.

Rep. Luetkemeyer asked how best to streamline notifications of breaches, and what about the federal government's own problems with data security? Secretary Mnuchin agreed on the need to streamline breach notifications, and said that Treasury is participating with the Department of Homeland Security and other agencies of the National Security Council to coordinate across the government. "We must learn from attacks against us."

Rep. Luetkemeyer asked about FSOC's process for designating SIFIs, and mentioned his bill that exempts mid-sized regional BHCs. He asked whether FSOC uses the Federal Reserve's score for rating systemic importance. Secretary Mnuchin said that he hadn't seen this, but that FSOC should look at it and consider using it. He said he would follow up on this.

Rep. Carolyn Maloney (D-NY) asked whether Secretary Mnuchin was concerned about financial stability, given yesterday's stock market plunge and today's volatility. Secretary Mnuchin said that the market is now up 187 points, and that he's not overly concerned. The economy's fundamentals are quite strong, he said, and he is monitoring the situation to make sure things are orderly. Rep. Maloney asked whether the volatility had implications for financial stability, and Secretary Mnuchin said that he didn't think so. Rep. Maloney asked whether the administration would take credit for yesterday's crash as well as for the rise. Secretary Mnuchin said they would claim credit for the rise since the election.

Rep. Maloney turned to cybersecurity issues, especially for virtual currencies. Two weeks ago, she said, a [virtual currency exchange in Japan was hacked](#) and lost millions. There's a one-in-seven chance that virtual currency holders have had their money stolen, and SEC Chairman Clayton has said he thinks some currency exchanges need to be regulated by SEC. Given their size and vulnerability, she asked, should virtual currency exchanges be subject to minimum cybersecurity standards? She noted that many are treating cybercurrencies as an investment. Secretary Mnuchin said that he broadly shares these concerns, and a subcommittee of FSOC is looking at these issues. They want to make sure these exchanges can't be used to move money to bad people. Bitcoin wallets are subject to Bank Secrecy Act and anti-money laundering laws. He said their other area of concern was for consumers,

including futures regulation and cyber attacks. FSOC is actively studying the issue, and will follow up.

Rep. Maloney asked whether Congress should raise the debt ceiling as part of a continuing resolution. Secretary Mnuchin said that Congress should raise the debt ceiling in any way it wants to.

Rep. Sean Duffy (R-WI) expressed his outrage over Democrats minimizing the benefits of the tax bill for the working class, and said that he wants to investigate the [Uranium One](#) deal. After a few minutes, he asked about an [article in today's Wall Street Journal](#) reporting the increase bank branch closings, especially in rural America: what is the root cause? Secretary Mnuchin said that one general issue is the cost of regulation for community banks. Rep. Duffy said facetiously that he thought the regulations were supposed to apply only to big banks; was Secretary Mnuchin saying they apply to small banks, too? Mnuchin said that yes, he was.

Rep. Duffy asked Secretary Mnuchin whether stock market volatility might actually be indicative of strong fundamentals, not weak ones. Secretary Mnuchin agreed. Rep. Duffy asked whether SIFI designations should be linked to activities instead of to size. Secretary Mnuchin said that the size threshold should be raised, and FSOC should also look at activities.

Rep. Nydia Velazquez (D-NY) said that they had all voted for the sanctions against Russia. She asked about Puerto Rico's situation, saying that administration policies had made the effects of natural disaster worse: "The system is crumbling before our eyes." She noted that Puerto Rico has a greater burden than other states in areas such as Medicaid/Medicare, and said the new tax law is actively hurting PR and its citizens. Among other provisions, she said, it treats Puerto Rico as a foreign country. She said that the new law will kill PR's manufacturing sector. "Isn't this outrageous and cruel?" she asked. She noted that almost 30% of Puerto Rico won't have power until this summer, and asked whether this would be acceptable in Houston, Louisiana, or Florida.

Secretary Mnuchin said that he shared Rep. Velazquez's concerns. (Velazquez: "I want you to share my outrage.") He said he was not aware of the Medicaid/Medicare issues, but the tax law situation is because PR collects its own taxes.

The Committee recessed for votes at 11:08 and returned at 11:46.

Rep. Ann Wagner (R-MO) reported benefits to her district from the tax law, including Charter Communications' decision to pay employees \$15/hour and increase investment in their broadband network. She said that her Subcommittee on Oversight had recently held a [hearing on following the money of human traffickers](#), and discussed cryptocurrency as a tool for criminals. The FSOC report addresses this, she said, but asked Secretary Mnuchin how Treasury plans to regulate this, and what Congress's role should be.

Secretary Mnuchin said that his main concern is that anybody using cryptocurrency can be monitored for money laundering, and that institutions dealing in cryptocurrency follow know-your-customer rules. Rep. Wagner asked what FSOC's role would be. Secretary Mnuchin said that FSOC would coordinate different regulators' response.

Rep. Wagner asked about recommendations for SIFI designation criteria, especially for nonbanks, and what steps FSOC could take to make the process more transparent. Secretary Mnuchin said that the Executive Order issued in April 2017 includes recommendations for transparency. Treasury will be issuing a notice of rulemaking on the issue later this year. Rep. Wagner said that her subcommittee had held a hearing about this, and produced a report that gave examples of inconsistencies and departure from procedures. She said she hoped they'd go forward quickly.

Rep. Brad Sherman (D-CA) said that Committee Democrats had submitted questions to Secretary Mnuchin for the record last July, but received responses only last week. He asked Secretary Mnuchin if he could promise now that questions submitted for the record today would get real responses within 30 days. Secretary Mnuchin said they would do everything they could to make it 30 days, but that it definitely wouldn't be as long as last time.

Rep. Sherman said he would have many questions for the record. He wants more information about the plan to change SIFI designation criteria, and about moving to an activities-based standard. He also wants answers about Treasury's response to a proposed standard from the International Association of Insurance Supervisors that would clash with the U.S. system.

He said he had asked about the Armenian tax treaty the last time, and got an "absurd response." Rep. Sherman said that they had published a model treaty, and the government of Armenia has said they want to get this done. He asked Secretary Mnuchin to commit to giving 28 hours of one tax lawyer's time to get this done. Secretary Mnuchin said he could commit to 28 hours. Rep. Sherman said that among other things, this would give the IRS access to information about anyone hiding assets in Armenia.

Rep. Sherman asked about FinCEN guidance on marijuana, saying that if Treasury revokes that, it will create opportunities for armed robbers. He asked for a response for the record about what Treasury plans to do. "I don't want bags of cash at marijuana dispensaries." Secretary Mnuchin said that Treasury didn't, either; they're reviewing the guidance, and they want to collect the taxes.

Rep. Sherman said that even though the US didn't designate China as a currency manipulator, Secretary Mnuchin had said they were going to do something about this. As the trade deficit with China continues to increase, Rep. Sherman asked,

what's going to happen? Secretary Mnuchin said that the situation would change, but currency manipulation is a separate issue from trade.

Rep. Andy Barr (R-KY) offered anecdotes about a bank teller who's getting more money back in her paycheck, and Karen the coffee lady who's saving \$1,410 a year because of the tax law. He asked for reassurance about market volatility, and monetary policy — he said that he sees the market correction as a reaction to better monetary policy under the new Fed chair. Rep. Barr said that it is “altogether appropriate” that new Fed leadership is addressing the risk of inflation, and asked Secretary Mnuchin to comment on how monetary normalization might keep valuations in line and prevent bubbles. Secretary Mnuchin said they had been working with the Fed in reducing their portfolio, but would respect the independence of the Fed.

Rep. Barr noted that the World Bank's International Development Association (IDA) is scheduled for its 18th replenishment, but reports have come out about massive corruption there. In light of this, he said, Congress is not going to write a blank check. Rep. Barr thanked Secretary Mnuchin for Treasury's help with the [World Bank Accountability Act](#), the first time in 40 years that Congress considered a standalone IDA bill. He asked for Treasury's help in getting the bill through the Senate, and Secretary Mnuchin said he looked forward to Senate action on the issue.

Rep. Gregory Meeks (D-NY) asked Secretary Mnuchin whether debt matters, since he's asking Congress to raise the debt ceiling. Secretary Mnuchin said that it does. Rep. Meeks asked what's better for the economy: a weaker dollar or a stronger dollar? Secretary Mnuchin said that some of his earlier comments were taken out of context. In the long term, a stronger dollar is better for the economy. His earlier reply was part of a three-part answer. The administration fundamentally supports a strong dollar in the long term.

Rep. Meeks asked whether stimulus is important in times of recession. Secretary Mnuchin said that it depends. Rep. Meeks reminded Secretary Mnuchin that in 2007, we were in the worst recession since the great depression. The Republican Treasury Department said we had to do something; would a stimulus have been appropriate then? Secretary Mnuchin said that would have been one of the appropriate responses.

Rep. Meeks grilled Secretary Mnuchin about the state of the economy when President Obama took office in 2009. Secretary Mnuchin acknowledged that the economy was bad then, but said that GDP growth had been weak under the Obama administration.

Rep. Roger Williams (R-TX) said that it's a great time to be on Main Street, thanks to Secretary Mnuchin's hard work for the American people. He said that he is encouraged by Administration's response to Iran. He has introduced a bill to increase Congressional oversight of Iran's access to global markets, and asked for an

update on Treasury's review of aircraft sales to Iran. Secretary Mnuchin agreed that the American people should know if Iran is using private aircraft for terrorism activities, and that Treasury's review is ongoing.

Rep. Williams said that a report from the UN yesterday had said the new tax law could result in repatriation of \$2 trillion. He asked how this will play out. Secretary Mnuchin said that this is one of the most important parts of the tax law. Apple is bringing \$350 billion back, and they're just one company. Rep. Williams said that Democrats are being alarmist about the market correction. The market has recorded 84 record highs in the last year, he said, so the last couple of days is no big deal, right? Mnuchin agreed.

Chairman Hensarling noted that Treasury's report to FSOC called for the inclusion of a cost-benefit analysis as part of the SIFI designation process. He asked whether FSOC will accept this recommendation. Secretary Mnuchin said that FSOC is reviewing recommendations, and will update its guidance.

Rep. Bobby Scott (D-VA) said that he was glad to see Treasury's concern about cybersecurity. He said that he was concerned about a [report in the news yesterday](#) that CFPB Acting Director Mick Mulvaney has pulled back investigations into Equifax. The largest cybersecurity attack in history, affecting 145 million American families — and Mulvaney is pulling back? Secretary Mnuchin said that he too only knew what he'd read in the news, and that he has not spoken to Mr. Mulvaney about this.

Rep. Scott said that as chairman of FSOC, it's Secretary Mnuchin's duty to keep the financial system secure from things like this. He asked the Secretary "to speak strongly" to Mulvaney about how bad this looks. The American people are very upset about this breach, he said, and "this is a step backwards." He asked whether Secretary Mnuchin could think of any reason why Mulvaney would do this. Secretary Mnuchin said he would discuss this with Mr. Mulvaney, and they would take it up at FSOC. Rep. Scott said that the CFPB had even shelved plans for on-the-ground tests of how Equifax protects data.

He said he is also concerned about fintech corporations — they're doing great things, but facing significant challenges. They're finding ways to serve the underbanked, but the regulatory environment for them is complicated and unclear. There's a threat of suffocating this new industry, Rep. Scott said; what will Treasury do? Will FSOC take the lead? Secretary Mnuchin said that FSOC would look at this, and he shares Rep. Scott's concerns.

Rep. Bruce Poliquin (R-ME) said that his constituents were loving tax relief. He said that he is very concerned about how unfair it is for nonbank financial institutions to be designated as SIFIs when they pose no risk to the economy. He called for reform in the designation process, and said that once designated, firms need an off-ramp. He asked whether the Secretary agreed that the best way to fix this would be

through codifying reforms. Secretary Mnuchin said that a legislative fix would probably be best.

Rep. Poliquin asked whether the Secretary supports [his bill](#) to eliminate stress tests for nonbank financial institutions. Secretary Mnuchin said that he did agree, and that it's in the report.

Rep. Poliquin said that he and Senator Cotton have introduced bills calling for lists of corrupt Iranian officials, similar to that published by the Treasury Department. Secretary Mnuchin said he was not familiar with the bill, but agreed with the concept.

Rep. Poliquin asked whether Secretary Mnuchin would help rural financial institutions, and Secretary Mnuchin said yes.

Rep. Al Green (D-TX) said that he feared the GOP has lost its way, and he's amazed at the number of Republicans who are defending Russian intrusion into American elections. He expressed concern about the failure to impose Congressionally ordered sanctions, and said he had seen reports that the original list of oligarchs was overridden by a higher authority in Mnuchin's office. He and Secretary Mnuchin had a heated exchange in which Rep. Green accused Treasury of inflating the list of oligarchs in order to hide the identity of the real criminals. Mnuchin said he didn't know what Rep. Green was talking about.

Rep. French Hill (R-AR) said that one of his constituents' businesses, All-Pro, a commercial painter in Arkansas, plans to buy new equipment and give their employees raises because of the new tax law. He asked about the Volcker Rule — how can they address concerns that it is too complex to implement? New Fed Chair says compliance requires a Ouija board. He asked whether Secretary Mnuchin supports his bill, [HR 4790](#), which seeks to improve harmonization and coordination, and relieves banks under \$10 billion from the Volcker rule. Secretary Mnuchin said "Absolutely."

Rep. Hill asked about the timing on sanctions for the Russian oligarchs. Secretary Mnuchin said they're working on it now, and the sanctions will be imposed on a rolling basis over the next few months. Some sanctions are already in place. Rep. Hill reminded Secretary Mnuchin that there's strong bipartisan support for this.

Rep. Bill Foster (D-IL) asked Secretary Mnuchin whether the Trump administration would be able to match the economic achievements of the Obama administration. Secretary Mnuchin said they were more focused on sustained GDP growth, which was subpar in the last administration. He said he would not specifically comment on stock market growth.

Rep. Foster asked about the foreign exchange markets, and said that the failure to address currency manipulation is the biggest shortcoming of free trade agreements. Treasury has not yet designated currency manipulators, he said, but this may become an issue, so what does Treasury plan to do if this comes up? One proposal suggests that the US could act unilaterally or with the EU to make countervailing purchases of currency from any country found to be manipulating. Rep. Foster asked whether this something Treasury has considered. Secretary Mnuchin said that the President and he were very focused on trade deficits and currency manipulation. "Where we see it, we will call it out." He said he found this idea interesting.

Rep. Foster asked for Secretary Mnuchin's thoughts on a proposal to permanently get rid of the debt limit. Secretary Mnuchin said he had talked to the President about this, and that they should consider it for the longer term.

Rep. Tom Emmer (R-MN) asked about the importance of tailoring regulations to the size and complexity of financial institution, untying rules from size alone. Secretary Mnuchin said that based on size alone, banks have very different risk profiles. But two banks of the same size could also have very different risk profiles. Treasury is focused on the risk profile. Rep. Emmer asked whether adjustments to the SIFI designation process should be codified through legislation, and Secretary Mnuchin said yes.

Rep. Denny Heck (D-WA) thanked Secretary Mnuchin for his work on CFIUS reform, and asked whether Mnuchin would commit to do everything possible to get CFIUS adequate funding. Secretary Mnuchin said he would, and that FIRRMA is a big priority for Treasury.

Rep. Heck asked why joint ventures are a gap of particular concern in existing CFIUS authority. Secretary Mnuchin said that where risks exist, if companies can construct joint ventures, they can duck CFIUS authority. He also said that he believes CFIUS reform can be integrated into existing export controls.

Rep. Heck asked what the alternative to FinCEN guidance on access to banking services by marijuana businesses is, if they don't want bags of cash being passed around. Secretary Mnuchin said that they're reviewing the existing guidance, and haven't taken it down. They're conferring with Justice and the IRS, and want to make sure they can collect taxes. They won't rescind existing guidance without a replacement.

Rep. Heck said that he needed to comment on Russian sanctions. We'll know they're working when Russia stops interfering, he said; we know they did it here in 2016, we know they did it in Germany, we know they're doing it now in Mexico. They haven't stopped, and they won't until we impose those sanctions.

Rep. Dave Trott (R-MI) praised the tax law, which he said was bringing Fiat Chrysler back to Michigan from Mexico. He also said he was glad about the court's

decision to throw out CFPB's fines on PHH. He asked whether it's possible that CFPB doesn't have the authority to investigate Equifax — maybe it's supposed to be the CFTC doing this? Secretary Mnuchin said he wouldn't speculate about this until he talks to Mulvaney.

Rep. Trott noted that the annual report on FSOC did not call for a repeal of the orderly liquidation authority (OLA). He thinks a new chapter in bureaucracy code would be much better than this law, and asked Secretary Mnuchin for his views. Secretary Mnuchin said that one of the Executive Orders directed Treasury to review this; a report and recommendations should be out in the next month.

Rep. Trott asked what reforms were being made to change the culture of FSOC from the previous administration. Secretary Mnuchin said he had met with hundreds of CEOs. He said that they believe in proper regulation, but want to make sure that banks and other regulated entities function properly.

Chairman Hensarling returned to an earlier question about the Volcker Rule — would Secretary Mnuchin advocate that a single regulator take the lead on the Volcker rule as long as other agencies have input? Mnuchin clarified that he would support there being a lead agency, with other agencies in supporting roles.

Rep. Stephen Lynch (D-MA) noted that the current administration has leveled off funding for FinCEN. He said that he sees vulnerability when it comes to the Middle East, where we have only one Treasury attaché covering five or six countries. Will Treasury look at possibility of increasing our people on the ground there? Secretary Mnuchin agreed that we need more presence on the ground there to combat terrorist financing. Rep. Lynch said there was bipartisan concern that we just don't have enough people there, they're stretched very thin.

Rep. Lynch asked about the Ex-Im Bank; the President had talked about bringing jobs home, and the Ex-Im Bank has been an important tool in that. He noted that the recent nominee to head the Ex-Im Bank was someone with a long record of trying to bring it down, and asked Secretary Mnuchin for his views. Secretary Mnuchin said that the President wants to keep the Ex-Im Bank in business, with proper reforms.

Rep. Lynch asked whether the MetLife case would make it harder to designate nonbanks as SIFIs in future. Secretary Mnuchin said that MetLife could still be subject to designation in the future, and that the decision was made on a legal basis, and he's comfortable with the precedent.

Rep. Ed Royce (R-CA) asked about derisking the federal balance sheet. He introduced a bill to require the GSEs to increase risk transfers to the private sector. Last year, he said, we saw private reinsurance payouts of \$1 billion to the flood insurance program. There's opportunity to increase credit risk transfer to the private sector. He asked Secretary Mnuchin whether Treasury would support this.

Secretary Mnuchin said that he looks forward to working on housing reform on a bipartisan basis — they have to look at FHA as well as GSEs.

Rep. Royce said that he will introduce legislation to direct OMB to identify other areas of the federal balance sheet where risk transfer can protect taxpayers. He said that he shares the concern that foreign government-backed investments in US technology might create risks, and supports CFIUS reform. His Foreign Affairs Committee is also looking at export controls reform — he asked whether Treasury would support new authority in this area. Secretary Mnuchin said yes, absolutely.

Chairman Hensarling returned to the issue of the FSOC designation process. The previous administration made decisions without input from primary federal regulators, he said, and little to no interaction with the companies being designated. He asked, how has the process changed? Will the primary regulator be involved? How will you communicate with the company? Secretary Mnuchin said that they would “absolutely” look to the primary regulator as the best source of information. He repeated that transparency is important — if companies are designated, they should understand why and how they can reduce risks going forward.

Rep. Ed Perlmutter (D-CO) asked about bitcoin/virtual currencies, marijuana, and sanctions. Secretary Mnuchin said that a subcommittee of FSOC is coordinating regulation of crypto currencies. Anyone who uses bitcoins should be subject to money laundering laws, and consumers need to understand them. Futures exchanges need to be able to regulate the underlying markets.

On the question of marijuana in the banking system, Rep. Perlmutter asked Secretary Mnuchin to consult Mick Mulvaney, who was a co-sponsor of the [SAFE Banking Act](#) when he was in Congress. He said he understood that FinCEN is reviewing this, “but there is no going back on this.” Secretary Mnuchin said he would follow up with Director Mulvaney. He said that he was not part of the Attorney General’s decision on marijuana, but they’re consulting with him now.

Rep. Perlmutter said that Bloomberg has reported that Russian assets have climbed based on speculation that Treasury won’t act on sanctions. Secretary Mnuchin said they were looking at specific sanctions against bad operators, not sanctions on debt.

Rep. Barry Loudermilk (R-GA) asked about the Treasury report on banks and credit unions, including a call for retrospective reviews of regulations. Before Dodd-Frank, banking agencies included consumer regulations in EGRPRA reviews; now they’re under the CFPB, so they’re not. Rep. Loudermilk has a bill that would include CFPB in the EGRPRA review requirements. Secretary Mnuchin agreed that rules need constant monitoring as markets change. He said that he wasn’t sure why CFPB was exempted to begin with.

Rep. Loudermilk said that he is also concerned about cybersecurity, but remembers the proverb “You don’t have to protect what you don’t have.” Federal requirements

make companies keep and report data that they might not need. Shouldn't Congress be reviewing what data they're requiring companies to collect and report? Secretary Mnuchin agreed.

Chairman Hensarling asked whether current CCAR and stress test requirements are too heavy-handed. Secretary Mnuchin said they could use reform and clarity.

Rep. Joyce Beatty (D-OH) asked about "sustained economic growth" — she submitted questions in writing almost a year ago to ask about whether Mnuchin met with his [Office of Minority and Women Inclusion](#) (OMWI) Director, and just got a reply a week ago. Secretary Mnuchin apologized. He said that he plans to meet with OMWI but has not done so, and cannot name the Director. Rep. Beatty read the language in Dodd-Frank (Section 342) that sets up the OMWI within Treasury and requires its director to report to the Secretary. Secretary Mnuchin admitted that he didn't know who that person is. Rep. Beatty said that she always asks this of everyone obligated by Section 342. Secretary Mnuchin said he'd get back to her tomorrow.

Rep. Beatty asked what role affordable housing should play in housing finance reform. Secretary Mnuchin said that the 30-year mortgage is very important to the economy, and we want to protect the taxpayer. The current situation is not sustainable. Affordable housing is important, he said; how it is paid for is something we need to address.

Rep. Warren Davidson (R-OH) asked what Treasury can do to encourage the Senate to pass the House's regulatory reform bill. Secretary Mnuchin said he was cautiously optimistic that the Senate would act.

Rep. Davidson said he was concerned about cybersecurity, including at the SEC. Lots of data is vulnerable, especially with the consolidated audit trail. He asked what Treasury's plans are to coordinate all functional areas. Secretary Mnuchin said that they have plans, including common guidelines within Treasury. They are coordinating with other independent agencies to follow Administration priorities on cybersecurity.

Rep. Davidson asked whether legislation is necessary to allow oversight of third-party providers, specifically in relation to the consolidated audit trail. Secretary Mnuchin said they should be able to do this without legislation, but he shares the concern.

Rep. Davidson asked whether China is a market economy. Secretary Mnuchin said that it is not.

Rep. Rubén Kihuen said that his district was ground zero for the foreclosure crisis, and Secretary Mnuchin ran OneWest when it was aggressively foreclosing. How can Congress trust him to support responsible reforms that will hold lenders

accountable? Secretary Mnuchin said that he didn't originate any of those loans. They followed the law and agreements with the FDIC. He said that he had a great understanding of the issues, and he started loan modifications at IndyMac and expanded them. Rep. Kihuen cited the case of a 90-year-old woman who faced foreclosure on a 27-cent default. Secretary Mnuchin said they'd asked HUD to change the rules on that. Rep. Kihuen asked what reforms would be necessary to prevent this predatory behavior. Secretary Mnuchin said that banks must originate loans that borrowers can afford, and underwrite them properly.

Rep. Keith Ellison (D-MN) noted that the congratulations on the tax bills hadn't mentioned the hedge fund managers and private equity folks. He asked Secretary Mnuchin what his own personal benefit from the tax law would be. Secretary Mnuchin said he didn't think he'd get much benefit, and that he'd had to sell almost all his holdings to take this job. Rep. Ellison said that nine out of ten of the wealthiest Americans would see their taxes go down, and that this tax bill represented a \$1.4 trillion deficit.

Rep. David Kustoff (R-TX) said that his local banks were suffering because of CRA. One bank had to open a branch for CRA purposes that is losing \$100,000/year. CRA needs to be updated, he said, especially when it comes to brick and mortar. The law includes too many irrelevant things. He asked whether Treasury envisions modernizing CRA to better suit the needs of financial institutions. Secretary Mnuchin said that Treasury is looking at this now, focusing on how banks can best serve their communities instead of spending money that does no good. He expects to release findings over the next couple of months. Rep. Kustoff asked whether some reforms could be accomplished without rulemaking. Secretary Mnuchin said that some changes may happen through regulation, some may need legislation.

Rep. Kustoff noted that financial literacy education doesn't count toward CRA unless it meets specific criteria, and asked if this can be modernized. Secretary Mnuchin said this was a specific area they were looking at.

Chairman Hensarling asked about the stress test requirement, expressing concern about having one imposed view of risk that applies one set of assumptions to all institutions. Doesn't this interfere with market discipline? Secretary Mnuchin agreed they needed to be careful about this.

Chairman Hensarling said that he was also concerned about the cost to investors of certain mandatory disclosure requirements targeted to social investing and social questions instead of materiality. He asked whether Secretary Mnuchin had an opinion on the proliferation of these requirements and their impact on capital formation. Secretary Mnuchin said there should be proper disclosure, but we should be careful about what that proper disclosure is.

Chairman Hensarling thanked Secretary Mnuchin for staying for the full three hours, called for questions for the record, and adjourned the hearing.