

## YELLEN TESTIFIES BEFORE HFSC ON STATE OF INTERNATIONAL FINANCE SYSTEM

### EXECUTIVE SUMMARY

On July 9, the House Financial Services Committee held a [hearing](#) titled, “The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System.” The hearing’s tone was overwhelmingly productive, as lawmakers sought to make the most of their time with Treasury Secretary Janet Yellen, questioning her on a wide variety of topics.

Republicans on the committee focused much of their questioning on the ongoing implementation of the Beneficial Ownership Information reporting requirement, voicing high levels of concern that response rates have thus far been lackluster, and expressing fears of the broad application of penalties on businesses that fail to meet the reporting deadline. Several committee Democrats agreed with their counterparts, and lawmakers across the aisle suggested that the Treasury Department needs to conduct a more vigorous and prominent outreach and education campaign. Sec. Yellen somewhat allayed these fears by confirming that penalties would be imposed only for willful violations of the law rather than cases of negligence or ignorance.

There was similar bipartisan alignment on the matter of digital asset regulations, with committee members from both parties thanking Sec. Yellen for her support for the Financial Innovation and Technology for the 21st Century Act (FIT21) ([text](#)), which would establish a federal regulatory regime for digital assets. Additional topics of discussion included (1) sanctions on Russia and Iran; (2) economic competition with China; (3) Basel III Endgame regulations; (4) the impacts of climate change on insurance markets; and (5) U.S. participation in international financial institutions.

### OPENING STATEMENTS

**Chair Patrick McHenry (R-NC)** ([statement](#)) noted the importance of U.S. participation and leadership in the international financial system. He warned that consistent failures to pass appropriations bills and handle government debt pose risks to U.S. economic leadership. He expressed concern at China’s Belt-and-Road development initiative and called for the Biden administration to use the preeminent U.S. position in international financial institutions to block financing to China. The administration should “forcefully” use existing sanctions authorities to block global funding for the Chinese military-industrial complex, the Chair emphasized. He also hailed the administration’s provision of military and financial aid for Ukraine, but called on Treasury to halt the Russian oil price cap program.

**Ranking Member Maxine Waters (D-CA)** ([statement](#)) applauded Sec. Yellen’s tenure as Treasury Secretary as well as the Biden administration’s economic policies. She hailed the administration’s efforts to forgive student debt, tackle “junk fees,” and efforts to stabilize the domestic financial system following the failures of banks including Silicon Valley Bank. Ranking Member Waters called for continued actions on housing, and hailed her bill to expand the Small Business Credit Initiative.

**Rep. Blaine Luetkemeyer (R-MO)** warned of an intensifying “global debt crisis.” He accused China of unfair and illegal trade practices, and called for an end to IMF and World Bank funding to the country. Rep. Luetkemeyer also called for an intensification of sanctions against Iran, and disparaged efforts by international financial institutions to tackle climate change.

**Rep. Joyce Beatty (D-OH)** echoed the comments of Ranking Member Waters, hailing the economic policies of the Biden administration and the performance of Sec. Yellen.

### **WITNESS TESTIMONY**

**Treasury Secretary Janet Yellen** ([testimony](#)) hailed U.S. participation and leadership in international financial institutions such as the IMF, the World Bank, and the Multilateral Development Banks (MDB). She highlighted these institutions as playing a key role in managing and succeeding in international economic competition with China. In requesting congressional authorization for funding increases, Sec. Yellen touched upon the specific importance of the Inter-American Development Bank, the African Development Bank, and the European Bank for Reconstruction and Development in maintaining U.S. economic leadership over China.

### **DISCUSSION AND QUESTIONS**

#### *Regulations, Rulemakings, and Agency Initiatives*

- Ranking Member Waters thanked Sec. Yellen for her work on Community Development Financial Institutions (CDFI), the Minority Business Development Agency (MBDA), and the Small State Business Credit Initiative (SSBCI). Sec. Yellen noted the importance of these programs in closing racial and gender-based wealth disparities.
- **Rep. Steven Horsford (D-NV)** called for policies to incentivize the private-sector construction of affordable housing, and called for improvements to the Low-Income Housing Tax Credit (LIHTC). Specifically, he drew attention to the Housing Market Transparency Act ([text](#)), which would require publicly available data on properties applicable to the LIHTC. Sec. Yellen relayed Treasury’s support for efforts to improve transparency and reliability, and committed to working with the congressman’s office on the bill.
- Rep. Horsford hailed the success of the IRS Direct File program, and praised Treasury’s decision to make it permanent.
- **Rep. Andrew Garbarino (R-NY)** expressed concern that the Consumer Financial Protection Bureau (CFPB) is considering a broad and novel definition of data brokers under the Fair Credit Reporting Act, arguing that companies that provide identity and fraud detection technology to financial institutions are sufficiently regulated. Sec. Yellen shared that she has

not been in communication with CFPB Director Rohit Chopra on this issue but committed to investigating further.

- Rep. Garbarino encouraged Sec. Yellen to work with other members of the Financial Oversight Stability Council (FSOC) on the analysis and implementation of Basel III requirements.
- **Rep. Brad Foster (D-IL)** and **Rep. Brad Sherman (D-CA)** hailed the IRS Direct File program while also calling for automatically populated tax forms as a next step to simplifying tax payments.
- **Rep. Mike Flood (R-NE)** called for Treasury to issue full guidance on the 45Z Clean Fuel Production Credit.
- **Rep. Zach Nunn (R-IA)** questioned if Treasury will be able to meet the deadline on the 45Z Clean Fuel Production Credit. Sec. Yellen was unable to share an exact timeline on the matter.
- **Rep. Josh Gottheimer (D-NJ)** noted that average costs for childcare now exceed those of rent, and asked how Treasury is seeking to address this. Sec. Yellen relayed the department's ongoing support for extending the Child Tax Credit.
- **Rep. Frank Lucas (R-OK)** asked if there are beneficial reforms that can increase participation in U.S. Treasury markets. Sec. Yellen noted her support for greater liquidity in the Treasury markets, though deferred to the banking regulators on the underlying question.
- Rep. Lucas expressed his belief that rules regarding the Basel III Endgame proposal should be reopened for public comment. Sec. Yellen abstained from taking a stance on the issue.
- **Rep. Ritchie Torres (D-NY)** asked if the overturning of the Chevron Doctrine will impact Treasury rulemaking authority. Sec. Yellen relayed her concern about the decision but established that Treasury intends to continue rulemaking efforts in coordination with its legal teams.

#### Digital Asset Regulation

- **Rep. French Hill (R-AR)** hailed the House's passage of FIT21 and thanked Sec. Yellen and the White House for their support for the bill. Sec. Yellen committed to continuing to work with Congress on finalizing the regulatory framework for digital assets.
- Rep. Hill expressed concern regarding legal conflicts between the Securities and Exchange Commission (SEC) and the Commodities Future Trading Commission (CFTC) concerning regulatory authority over digital assets. Sec. Yellen noted that it is not her role to adjudicate between agencies on disputes.
- Rep. Flood hailed FIT21's efforts to establish a regulatory regime for digital assets. He questioned how Treasury plans to address decentralized trading protocols that do not create orderbook-style markets or involve the custody of customers' crypto assets. Sec. Yellen confirmed that this is an area of focus for regulators including the Federal Trade Commission (FTC) and CFTC.
- Rep. Flood noted the concentrated risk regarding digital assets: if only a small number of entities are authorized to serve as custodians of digital assets for registered investment advisors, this arrangement could constitute a concentration risk. Rep. Flood specifically noted that a small number of entities can serve as custodians of approved spot Bitcoin ETFs. Sec.

Yellen expressed that she would require more information on the issue before conveying her view.

- **Rep. Wiley Nickel (D-NC)** echoed Rep. Flood’s stated concerns regarding concentration risk in the market for cryptocurrency custody.
- Rep. Nickel called for continued bipartisan work toward creating a regulatory regime for digital assets.

#### Beneficial Ownership Rules

- In a dialogue regarding the Beneficial Ownership regime, Chair McHenry questioned why Treasury bifurcated these rules, as well as when the Department will publish the Customer Due Diligence and CDD Recission Rule — noting that businesses are subject to two reporting regimes. Sec. Yellen shared that Treasury seeks to publish the proposed rules this Fall.
- **Rep. Nydia Velázquez (D-NY)** expressed concern that small businesses are unaware of Beneficial Ownership Information reporting requirements. Sec. Yellen shared that the Financial Crimes Enforcement Network (FinCen) has an active outreach and education initiative.
- **Rep. Ralph Norman (R-SC)** asked how Treasury has been educating businesses on the Beneficial Ownership Information reporting requirements, and questioned if the department is willing to extend the deadline. Sec. Yellen shared that Treasury has been undertaking an “extensive” outreach and education initiative, and expressed her willingness to work with lawmakers on events within their districts. Based on current response rates, she expressed that Treasury does not feel a need to extend the reporting deadline, and noted that fines are only imposed for willful violations rather than negligence.
- Rep. Beatty acknowledged the importance of the FinCen Beneficial Ownership reporting rule, but expressed concern that business owners are generally unaware of the requirements.
- Rep. Nunn expressed concern that Treasury’s outreach efforts on the Beneficial Ownership reporting requirements have been insufficient, and asked Sec. Yellen to commit to extending the deadline. Sec. Yellen relayed FinCen’s judgment that an extension is unnecessary, and commented that FinCen does not seek to penalize negligent violations.
- **Rep. Roger Williams (R-TX)** was alarmed at the poor response rates by small businesses regarding the Beneficial Ownership reporting requirements. Sec. Yellen relayed that FinCen is engaged in a broad outreach effort, and that it believes that the timeframe is adequate. She expressed willingness to reexamine this issue at a date closer to that deadline.

#### Economic Competition with China

- Chair McHenry expressed his openness toward the Biden administration’s Notice of Proposed Rulemaking ([NPRM](#)) on outward investment, but expressed concern about a lack of clarity. As an example, he described the difference between AI imaging that can be used in both medical and military settings, and questioned how these distinctions will be drawn. Sec. Yellen noted that the proposed regime is targeted toward the use of technology for military, intelligence, or cyber warfare purposes. She emphasized the importance of carefully targeting relevant technologies to avoid dissuading investment.

- Chair McHenry questioned why the NPRM is necessary instead of using existing sanctions authorities on specific entities. Sec. Yellen noted that sanctions are generally put into place after a security risk is uncovered, while the NPRM seeks to take a preemptive approach.
- Rep. Garbarino condemned China's Belt-and-Road Initiative, specifically noting a "predatory" loan pattern that endangers developing nations, and questioned what role the U.S. can play in managing or relieving debt to Beijing. Sec. Yellen shared that this is an "extremely high" priority for Treasury to address through the IMF and World Bank, and that though she has serious concerns, some progress has been made on debt restructuring in countries including Zambia and Ghana.
- Rep. Garbarino asked if the U.S. should use its status to change China's classification as a developing country at international financial institutions. Sec. Yellen committed to investigating the issue further before responding, noting that the U.S. opposes any lending to China through these institutions.
- **Rep. Young Kim (R-CA)** questioned if the U.S. would support an effort by Taiwan to join the IMF. Sec. Yellen shared that Taiwan has not yet expressed interest in joining the organization, but that the U.S. has supported greater engagement between Taiwan and the IMF.
- Rep. Kim echoed Rep. Garbarino's concerns regarding Chinese debt-trap diplomacy, and asked what efforts Treasury is taking to ensure greater transparency in Chinese sovereign lending through the common framework agreed upon by Group of 20 (G20) countries, the Paris Club, and the Chinese government. Sec. Yellen shared that there has been ongoing engagement with China on debt restructuring through the common framework. Though she acknowledged frustrations in this process, she believes that progress has been made.
- Rep. Kim called for public and private creditors to receive similar treatment in debt restructuring negotiations, noting that China has resisted the participation of private creditors. Sec. Yellen shared that, despite difficulties in negotiations on many issues, there have been successes in joint Anti-Money Laundering (AML) and anti-narcotics efforts.
- **Rep. Erin Houchin (R-IN)** expressed concern that international financial institutions do not serve U.S. foreign policy and strategic goals, specifically criticizing the World Bank's focus on climate change as one that may drive developing countries to seek Chinese investment. Sec. Yellen asserted that the World Bank and MDBs are focused on broad investment strategies and achieving sustainable growth, but noted that climate change is increasingly impacting the ability to meet development goals.
- Rep. Houchin criticized China's "overproduction" in strategic sectors such as solar panels, batteries, and electric vehicles, and questioned if this conflicts with Treasury's strategy of promoting renewable energy investments. Sec. Yellen confirmed that procurement strategies are a major concern for MDBs.
- Rep. Torres praised the Biden administration's strategy on the domestic manufacture of high-end semiconductors, but asked what efforts should be taken to combat Chinese overproduction of "legacy chips." Sec. Yellen confirmed that recent tariffs have applied to these older and less advanced chips, and that manufacturing incentives will aid in increasing domestic manufacture of chips across the technological spectrum.
- Rep. Torres expressed concern at reported connections between Mexican drug cartels and Chinese money launderers. Sec. Yellen relayed that Treasury is using every tool at its disposal,

including direct sanctions and international collaboration with the Chinese and Mexican governments. Rep. Torres relayed his belief that China is “stringing along” the U.S. government on counter-narcotics efforts, and mulled the possibility of sanctions directly imposed against China. Sec. Yellen expressed that while there have been some positive steps from the Chinese government, she will not rule out any future actions.

- Rep. Luetkemeyer asked if Treasury has preemptively prepared sanctions to be imposed upon China immediately in the event of an invasion of Taiwan. Sec. Yellen confirmed that there have been inter-agency and multi-lateral discussions on a response to a Chinese invasion of Taiwan, but relayed her inability to answer in detail.
- Rep. Luetkemeyer asked if sanctions should be imposed on Chinese leadership in response to the genocide of the Uyghur people in China’s Xinjiang province. Sec. Yellen confirmed that while sanctions have been imposed on some figures in the Chinese government, this is ultimately a matter of foreign policy concerns, and she thus deferred to the State Department. Rep. Luetkemeyer called for sanctions on Chinese financial institutions that facilitate money laundering for Mexican cartels.
- **Rep. Vicente Gonzalez (D-TX)** questioned if Treasury will include non-linear investments in efforts to screen outbound investment, specifically noting a Chinese-funded semiconductor plant in Mexico. Sec. Yellen communicated that she has been in discussions regarding this issue with counterparts in Mexico, and they have discussed the Mexican government implementing its own investment screening programs.
- **Rep. Andy Barr (R-KY)** called for the imposition of blocking sanctions on Chinese companies on the Chinese Military-Industrial Complex (CMIC) List. Sec. Yellen relayed her inability to comment on specific entities.
- Rep. Williams noted concern with MDBs refusal to finance fossil fuel projects, and questioned if this allows for increased Chinese investment and influence. Sec. Yellen stated that many of the countries in question prefer to break ground on renewable energy projects due to long-term feasibility. She confirmed that if renewable energy is not an option or is not economically feasible, Treasury is supportive of natural gas projects.

#### Sanctions on Russia

- Rep. Hill called for Treasury to swiftly and fully implement the Rebuilding Economic Prosperity and Opportunity for Ukrainians Act (REPO) ([text](#)), which would allow for the seizure of Russian assets and their transfer to Ukraine. He also expressed apprehension about the Revenue Acceleration Loan Package announced at the Group of Seven (G7) summit. He called for an intensification of sanctions on Russia and an expansion of arms provisions to Ukraine, with the U.S. continuing to take a leading role in the opposition to the Russian invasion. Sec. Yellen established her support for the REPO Act and committed to meeting all statutory reporting requirements. She noted the importance of working with U.S. allies in the G7 and the European Union (EU) on delivering revenue to Ukraine.
- Rep. Hill questioned the status of frozen Russian assets held in the U.S. Sec. Yellen shared that a relatively small amount of Russian assets are held in the U.S., with most being in Europe.
- **Rep. Gregory Meeks (D-NY)** praised Treasury’s efforts to economically counteract Russia’s invasion of Ukraine, and called attention to his legislation to sanction the leaders of the



Russian nuclear energy agency, RosAtom, and to preemptively sanction any company which would participate in the construction of a tunnel linking Crimea to Russia. Sec. Yellen committed to, wherever possible, strengthening the sanctions regime on Russia.

- Rep. Sherman praised the REPO Act, but called on Treasury to ensure that U.S. citizens with claims against Russian assets be allowed to collect upon them prior to the funds being dispatched to Ukraine.
- Rep. Sherman noted the Russian Central Bank's use of cryptocurrency to evade western sanctions, and called for ensuring sanctions enforcement targets Russian cryptocurrencies and stablecoins. Sec. Yellen shared her belief that these do not occupy a major part of Russia's efforts to evade sanctions, but she committed to ensuring that sanctions are comprehensively enforced.
- Rep. Nickel pondered what further actions can be taken to reduce Russian profits from oil exports, noting that China and India have access to non-G7 shipping and insurance services, allowing them to evade the price cap on Russian oil. Sec. Yellen noted Russia's expansion of a "shadow fleet" of shipping and insurance services, which she described as necessitating major investments from the Russian government. She elaborated by noting specific sanctions actions taken on ships involved in the illicit trade, and noted that when considering further measures, Treasury has great concern for the global oil market.
- Rep. Foster asked what progress has been made on transferring seized Russian assets to Ukraine. Sec. Yellen confirmed that Treasury seeks to transfer \$50 billion by the end of the year, but that there are steps that the EU must take to proceed.

#### Sanctions on Iran

- Rep. Nunn, commenting on reports that U.S.-based firms provide insurance to Iranian oil tankers engaged in sanctions violation, asked if Treasury will crack down on violators within the U.S. While Sec. Yellen shared her inability to discuss specific entities, she relayed her belief that the majority of companies that underwrite Iranian vessels are located outside the U.S.
- Rep. Gottheimer applauded recent sanctions imposed on Iranian banking networks. Sec. Yellen noted that the U.S. is imposing a wide array of sanctions actions across sectors, including efforts to shut down Iranian oil smuggling.
- **Rep. Michael Lawler (R-NY)** called for the implementation of the Stop Harboring Iranian Petroleum Act (SHIP) ([text](#)) and the Iran-China Energy Sanctions Act ([text](#)), which mandate sanctions on foreign ports and refineries that knowingly process Iranian oil, as well as mandating Treasury to close the accounts of Chinese banks that are involved with petroleum transactions with sanctioned Iranian financial institutions. While Sec. Yellen relayed that she needs to familiarize herself with the specifics of these statutory requirements, she commented that Treasury has imposed a wide array of sanctions on Iran directly, as well as on financial institutions in other countries that deal with Iran.

#### U.S. Participation in International Financial Institutions

- Rep. Beatty noted that the World Bank's International Development Association (IDA) is undergoing replenishment this year, and asked what role it plays in addressing climate change in developing countries. Sec. Yellen shared that it plays a critical role in addressing

issues including (1) food insecurity; (2) the effects of climate change; (3) education; (4) pandemic preparedness and prevention; and (5) energy availability.

- **Rep. Rashida Tlaib (D-MI)** expressed her belief that IMF surcharges unfairly penalize developing countries. Sec. Yellen shared her view that the surcharge program is important to incentivizing timely payments and containing borrowing, but committed her support to an ongoing IMF review of the surcharge program.
- In response to a request for information from Rep. Tlaib, Sec. Yellen explained that Special Drawing Rights (SDR) is a system in which countries agree to provide additional lines of credit in proportion to their contributions to the IMF. Sec. Yellen confirmed that this program does not incur any costs to the U.S., but provides financial benefits in the form of interest. Sec. Yellen expressed caution in using SDR to address debt burdens.
- Rep. Tlaib questioned the “outsized role” of the U.S. in the IMF and World Bank, asking how developing countries can play a larger role. Sec. Yellen relayed Treasury’s support for governing reforms to the institutions so that borrowing countries have a greater voice, as well as reforms to quota allocations.
- Rep. Williams raised alarm at the IMF’s proposal that SDR be generally allocated to global members, including China, Russia, and Iran. Sec. Yellen confirmed Treasury’s opposition to allowing hostile countries to use SDRs. She elaborated that SDRs must be converted to hard currency to be used, which Treasury will continue to prohibit for countries of concern.
- Rep. Nickel hailed recent investments and regulatory reforms with respect to nuclear energy, further inquiring as to what steps can be taken to incentivize the deployment of civilian nuclear energy worldwide. Sec. Yellen relayed Treasury’s support of all available technology to expand access to electricity, and shared that the Department has been working to allow MDBs to make investments in nuclear power.

#### Insurance Markets

- **Rep. Sean Casten (D-IL)** noted the risk of climate change to the financial sector, especially insurance markets, expressing concern that data collection on this matter has been insufficient, as several states are not participating in the Federal Insurance Office (FIO) data collection effort. Sec. Yellen relayed her view that states with the greatest concern have participated. She committed to sharing more detailed information with the congressman in writing, noting that it could be a “potentially serious” flaw.
- Rep. Casten questioned if Treasury needs additional authority to collect necessary information on insurance markets. Sec. Yellen did not answer the question directly but did say that this matter should be investigated further.

#### Foreign Investment in the U.S.

- Rep. Norman questioned what role Treasury plays in the purchase of U.S. land or property by foreign nationals and governments. Sec. Yellen shared that the Committee on Foreign Investment in the United States (CFIUS) takes a preeminent role in this, along with the Department of Defense (DoD), and highlighted a recent [NPRM](#) to prohibit these types of purchases near 50 military bases.



- Rep. Lucas commented on his legislation to add the Secretary of Agriculture to CFIUS, and include agriculture transactions for review. Sec. Yellen relayed that land transactions in the vicinity of military installations identified by DoD are scrutinized and, in some cases, blocked outright.
- **Rep. David Scott (D-GA)** expressed his belief that China is a threat to the national security of the U.S., and praised the CFIUS rule on property purchases in proximity to select U.S. military bases.
- Rep. Scott asked if there was any indication that China has expanded property purchases beyond land, specifically small businesses. While she did not answer the question directly, Sec. Yellen shared her belief that the purchase of small businesses near a military base would fall under CFIUS jurisdiction.

#### Other

- In response to a question from Rep. Luetkemeyer on the greatest cause of concern regarding sanctions on foreign financial institutions, Sec. Yellen communicated the importance of the U.S. dollar's preeminent role in international finance and trade. She noted that as the use of sanctions increases, countries are trying to de-dollarize their commercial activities.
- Rep. Sherman noted that, while India has recently reduced corporate tax rates from 40 percent to 22 percent, they have excluded branches of foreign companies, allowing U.S. companies to localize operations through subsidiaries and benefit from a lower tax rate. He elaborated that financial institutions are prohibited from forming subsidiaries, and thus are unable to benefit from the reduced rate. Sec. Yellen committed to working with his office, as well as the Indian Ministry of Finance, on this matter.
- Rep. Gottheimer remarked on his concern regarding recent state laws requiring financial institutions to provide justifications to customers upon closing their accounts, including in situations related to financial crime risk, noting that these provisions may conflict with federal AML laws. Sec. Yellen noted that banks retain their obligations to the federal government, which will continue to enforce relevant financial laws.
- Rep. Houchin questioned the U.S.'s opposition to developing fossil fuel projects in Africa. Sec. Yellen relayed that this has been driven by the priorities of African nations, commenting that renewable energy is, in many cases, the "cheapest way" to provide electricity.
- Citing the vast quantities of remittances from the U.S. to Mexico, Rep. Gonzalez asked how Treasury monitors these transactions to prevent illicit financing of cartels. Sec. Yellen noted many remittances are processed through money service businesses, which are subject to the Bank Secrecy Act, AML laws, and Countering the Financing of Terrorism (CFT) measures.