

**The Annual Testimony of the Secretary of the Treasury on the State of the International
Financial System
House Financial Services Committee
June 13, 2023**

Opening Statements

Rep. Hill (R-AR) said that today’s hearing is about the state of international financial institutions (IFIs), but he wanted to talk about the debt ceiling default that we just avoided. He agreed that almost reaching default hurts America’s credibility and pointed to how the President refused to negotiate for months. Hill pointed to the lack of transparency around the X-date and how McHenry wrote Yellen about this. He noted that two different X-dates were released and there was zero transparency. Hill turned back to IFIs and said that Ajay Banga is a serious and competent leader for the World Bank. He said that the World Bank and IMF should be laser focused on eliminating poverty, but they are not. Hill pointed to how the Treasury opposes fossil fuel projects funded by the IMF in places like Africa and China is taking these projects on instead.

Ranking Member Waters (D-CA) noted that after the failures of SVB, Signature Bank, and First Republic, it was the swift action of Yellen and other regulators that protected our economy. She added that Yellen did a masterful job in blocking lies from MAGA Republicans with regard to the debt limit and the X-date. Waters noted that climate change and food insecurity pose major threats to the international economy and Yellen is helping to restore the image of the US across the world through IFIs. She said that the US also continues to impose severe sanctions against Russia. Waters said that Republicans are denying that climate change exists and dismantling the US’s ability to respond to pandemics. She said that Republicans also continue to defend Trump, who has been indicted twice. Waters said that the contrast between Republicans and Democrats is clear and Republican infighting is bringing floor proceedings to a halt.

Rep. Luetkemeyer (R-MO) stated that IFIs were founded to cultivate economic growth around the world, especially in distressed countries, but they are failing to meet their goals. He pointed to how China continues to receive deals from the IFIs that no other wealthy country can receive. Luetkemeyer said that it is our money that is largely funding these failed policies.

Rep. Beatty (D-OH) thanked Yellen and the Biden Administration for their leadership and preserving US strength and leadership on the global stage. She pointed to how we averted default and a major banking crisis with their help. Beatty then turned to IFIs and criticized China for their destructive relationships with developing countries.

Witness Testimony

The Honorable Janet Yellen, Secretary, Department of the Treasury, gave an overview of the Treasury’s oversight of the international financial institutions (IFIs). She noted the important role of IFIs in the face of the pandemic and Russia’s war against Ukraine and how the World Bank and the IMF have provided important funding to Ukraine. Yellen noted that these institutions reflect American values, and assistance that comes from them comes with strong requirements for governance, accountability, and debt sustainability. She then briefly described how the Biden

Administration seeks to bolster leadership at these institutions. Yellen closed by saying that she was relieved that Congress and the President raised the debt limit in time but warned that the US came dangerously close to default, and this cannot be normalized.

Member Questions

Rep. Hill (R-AR) said that he read the statement from the G7 meeting on Ukraine last month and agreed that Russia should pay for the rebuilding of Ukraine. He pointed to his legislation on this, the Ukraine Reconstruction Act, and thanked the Treasury for their technical assistance on this. Hill asked if this is the right approach and if legislation is necessary. Yellen said that the Treasury has worked with allies and immobilized \$300 billion in Russian reserves. She said that they are also working with allies in the G7 to ensure these assets remain immobilized and they are also working with the Repo Task Force on this issue. Yellen noted that most of Russia's sovereign assets are not in the US, so this requires a coordinated approach with allies. She said that they look forward to working with Hill and other members of Congress on this. Hill turned to FSOC and asked if it was fair to say she had looked at all FSOC reports they had put out. Yellen said that is fair. Hill pointed to the FSOC report on digital assets and how it said that the lack of a regulatory framework allows for regulatory arbitrage, which he said many on both sides of the aisle agreed with. He said that the FSOC report recommended that Congress pass legislation to give regulators authority over digital asset spot markets and digital asset companies. Hill asked if these recommendations from the FSOC report last Fall are still the view of FSOC. Yellen said yes, there are still some gaps, like the spot markets, and crypto assets that are not securities that the regulatory framework should address. She added that we need a comprehensive federal prudential framework for stablecoins.

Ranking Member Waters (D-CA) said she would like to talk about dealing with the crisis in Haiti at some point. She then turned to the recent announcement from the PGA which is expected to be bought by Saudi Arabia's LIV, and noted how the Treasury oversees foreign direct investment (FDI) in the US. Waters said that Saudi Arabia has a repressive regime and pointed to the killing of Khashoggi and their financing of Al-Qaeda. She asked what scrutiny the deal between PGA and LIV will receive and if CFIUS is looking at the investments of Saudi Arabia's sovereign wealth fund. Yellen responded that CFIUS is well positioned to review transactions with national security concerns, but she could not comment on any specific deals. Waters said that CFIUS has the responsibility to review these types of transactions and hoped they would take this up.

Rep. Lucas (R-OK) said that the US capital markets are a key strength of our economy and was concerned that Basel III would impact liquidity and efficiency in our markets, especially since the SEC is taking on market structure changes. He asked if Yellen was confident that these changes would not undermine the resilience of our capital markets. Yellen agreed that we must maintain strong capital markets, but she could not comment on the regulations, especially since they have not come out yet and she hasn't been fully briefed on them. She said they would review them carefully and consider their effects on the Treasury markets. Lucas said that it is concerning that there will be significant market structure changes, including changes to the Treasury markets and capital requirements. He asked if the Fed and SEC are coordinating with the Treasury on the economic analysis necessary to understand the impact of these rules on markets. Yellen said that this is likely to be a set of Fed regulations and proposals, so the

Treasury is not involved here. She said that there will likely be an NPRM and then they could review this. Lucas said he is concerned about unintended consequences if they do not coordinate. He then turned to the EU's CSRD on ESG disclosure and how the requirements apply to non-EU companies with strong EU presence, which could have a substantial impact on industries in the US. Lucas asked if the Treasury has an estimate of how many US companies will be impacted by the CSRD. Yellen said that they do not have an estimate, but they are concerned that the CSRD is broad and will have unintended consequences. Lucas said that we cannot allow Europe to become the standard setter for the US. Yellen agreed, saying that these requirements could impact the activities of US firms, which is concerning.

Rep. Velazquez (D-NY) noted how in July 2021, the IMF board of directors found that climate change is an existential threat and asked how the Treasury is working to integrate the macroeconomic effects of climate changes into the IMF's activities. Yellen said that they are working to incorporate the effects into the work of the IMF and multilateral development banks. Yellen said the multilateral development banks need to evolve the work that they do to move from purely country-specific challenges that affect poverty to responding better to global challenges, including climate change and pandemics as well as fragility and conflict. She said they have spearheaded a process to evolve their work, starting with the World Bank. Velazquez said that she was also concerned about how fast SVB grew in size and complexity, adding that she is considering legislation on this. She asked if this concerned Yellen as well. Yellen said that it did concern her, as well as the set of banking problems that were touched off by the failure of SVB. She said the bank had a unique structure that made it vulnerable to runs and it would be appropriate for banking supervisors to address this. Velazquez asked if regulators have all the tools necessary to address banks that grow in size and complexity quickly. Yellen said that bank regulators do have the authority to put effective supervision and regulation in place. She said that some supervisory standards were relaxed, and they think it is appropriate to revisit some of these changes. Velazquez agreed and then turned to how CDFIs are concerned about a new certification proposal from the CDFI Fund. She asked if Yellen is aware of this proposal. Yellen said that she is aware of this plan, saying that this process has not been reviewed in 25 years.

Rep. Sessions (R-TX) noted how the Fed began loaning the US government \$120 billion a month when Biden took office and asked how much money the Fed is putting into the US economy. Yellen said that this is really a question for Chair Powell, but the Fed is engaging in QT now and reducing its holding of assets. She said that this is aimed at addressing inflation. Sessions again asked how much money the Fed is putting into the economy. Yellen said that the Fed provides reserves to the banking system and purchases Treasury assets and MBS guaranteed by Fannie and Freddie. Sessions said that this borrowing of money sends a message to the world that we cannot stand on our own two feet and manage spending habits. He said that her testimony is suggesting that we are not taking loans from the Fed that we are paying interest on.

Rep. Sherman (D-CA) noted that the SEC is looking at swing pricing rules on mutual funds that will undermine investor protection and the word is that FSOC is pushing this regulation to prevent a precipitous sell off of securities in a crisis. He hoped that Yellen would reexamine her position here, saying it was bad investor protection and systemic regulation. Sherman then turned to the IMF and how Pakistan is engaged in negotiations right now and the US should use this to push the country toward democracy and human rights. He noted that Iran has SDR at the IMF

and he thought this should be addressed as well. Sherman also hoped the Treasury would look at sanctioning individuals in Ethiopia. Sherman turned to the capital gains tax and asked why we use the tax system to subsidize US investment in Chinese companies. He pointed to how if you work hard, you pay the full income tax rate, but if you invest in Huawei, you pay a lower rate. Yellen said that we have policies on how we tax capital gains for all assets, including Chinese assets. Sherman noted that the Chair talked about crypto, but we already have the federal securities laws. He pointed to the Inflation Reduction Act (IRA) and how the Treasury announced that crypto brokers would not need to report on transactions until further guidance is issued. Sherman said he recently sent a [letter](#) to the Treasury on this and asked when further guidance would be issued. Yellen said that they would get back to him shortly.

Rep. Posey (R-FL) asked if the administration's actions to sanction Russian oil have been a failure. Yellen said that the US and other G7 countries are not buying Russian oil, and with the price cap, we have cut Russia's oil revenue. Posey asked why Russia's revenue has gone up. Yellen said that it has halved over the past year and the price cap has had a serious negative impact. Posey asked why the administration has not imposed sanctions on China with regard to human rights violations of the Uyghurs. Yellen said that they have imposed sanctions and they are looking at more. Posey pointed to his CRA resolution on solar panels, which was vetoed, and asked why they support giving China an exemption here. Yellen said that she was not familiar with the Commerce Department's thinking on this resolution. Posey was surprised that she was not familiar with this and asked if she knew why Biden vetoed this. Yellen did not know. Posey then asked about the Biden Administration's strategy to use our participation in IFIs to address and mitigate threats posed by China to our financial and economic well-being. Yellen said that they are working hard to get the IFIs to graduate China and cease lending to China. She added that they are also working to get China to meet its responsibilities on debt restructuring and debt relief.

Rep. Meeks (D-NY) thanked Yellen for her tireless effort to protect the US financial system. He thought we need to be judicious in picking sanction targets and pointed to how Rosatom is not sanctioned. Meeks believed that this company needs to be fully sanctioned and said he has legislation on this. He asked for Yellen's thoughts on this and the importance of continued support for Ukraine. Yellen said that they are using their authorities to do all they can to support Ukraine, but she could not comment specifically on Rosatom. She said that they have designated some of their subsidiaries and officials from the company, but she could not preview future sanctions actions. Meeks then jumped to debt relief for the developing world and believed that it is crucial that the US provide debt relief to countries, but they need to ensure that this is not used to pay back China. Yellen said that they are concerned about the number of countries who need debt relief and they have developed a common framework so these countries can restructure debt. She said that they are disturbed that most countries have not signed up for this and China is also not coming to the table.

Rep. Luetkemeyer (R-MO) noted that Yellen has not testified before the Small Business Committee and hoped that she would appear there soon. He turned to the possible Chinese invasion of Taiwan and asked Yellen if they are putting together a sanctions plan if this happens. Yellen said that the NSC works with the interagency to make sure it is in a position to address threats to national security, but she was not in position to provide details on a response to

hypothetical events pertaining to Taiwan. Luetkemeyer noted how China has access to the World Bank and asked if she agreed that they are not a LMI country. Yellen agreed. Luetkemeyer did not think they should have access and asked what Yellen is doing to stop them from having access to the World Bank. Yellen said that the US uses its vote to oppose funding from going to them and they are trying to convince allies to join them. Luetkemeyer said that the US contributes more to the World Bank and has a larger voice, so the US needs to use this to put China in its place. He then turned to how Yellen asked for permission to continue to participate in new arrangements to borrow in her testimony and asked about this. Yellen agreed and explained this further. Luetkemeyer asked if she agreed that we should not contribute more if China has access to the funds. Yellen explained that these funds are only for much lower income countries.

Rep. Scott (D-GA) asked if we should consider restrictions on private equity (PE) investments in companies that have connections to the Chinese military apparatus. He also noted that China is establishing a base in Cuba and asked if Yellen is taking this seriously and what we should do about PE firms that have connections with China's military or surveillance operations. Scott added that it was a mistake for the Biden Administration to not shoot down the Chinese surveillance balloon sooner. He asked for Yellen's assessment of this threat and asked if we should prohibit investment in these Chinese companies. Yellen said that they are looking at restrictions on outbound investment that could pertain to PE firms that invest in Chinese firms with connections to their military and they are worried about potential national security risks. Scott asked what Yellen's assessment of China establishing a military base in Cuba is. Yellen said that they are concerned about China's role in the Caribbean more generally. He asked if she felt that this was a serious attack on the US and asked what we should do. Yellen said that protecting our national security is a serious concern and we are dealing with China via export controls, sanctions, and potential outbound investment restrictions. Scott asked if this would precede their intentions in Taiwan. Yellen could not comment.

Rep. Huizenga (R-MI) wanted to make sure he heard correctly that the PGA LIV agreement is something that CFIUS will review. Yellen said that she could not talk about specific matters before CFIUS, but if there are national security risks, they review the transactions. Huizenga turned to the debt ceiling and how the X-date changed from June 1 to June 5. He asked what analysis the Treasury did to reach these dates. Yellen said that there was nothing political about the X-dates she shared with Congress and in early January, they felt confident that their resources would last until the beginning of June. Huizenga emphasized the importance of congressional oversight and noted that he sent her four letters on the recent bank failures and the Treasury's work on digital assets. He said that they wanted to understand the decision to invoke SRE as well as FSOC discussions, saying that they failed to adequately respond to his questions. Huizenga asked if Yellen would commit to providing records from the FSOC meetings on the bank failures, not just the public meeting minutes. Yellen said that they have provided meeting minutes from the meetings.

Rep. Lynch (D-MA) wanted to revisit the aftermath of the SVB collapse with regard to the exercise of the SRE and the least cost resolution for banks. He said that some say that perhaps exercising the SRE, we may have been able to resolve this without resorting to this exception. Lynch asked if Yellen could think of any alternative in retrospect. Yellen said that they were all

concerned that the failure of these banks created a huge risk of contagion, and they were concerned that depositors would be terrified and that there would be a run on the banks. She said that the SRE and new liquidity facility at the Fed stabilized the banking system. Lynch said that the least cost resolution preference was meant to lower the cost of resolution and it was hard for him to imagine a similar situation where an SRE would not apply. He asked if we would fall into this same scenario over and over again. Yellen did not think so, noting that the FDIC resolved other bank failures during the 2008 crisis. Lynch then turned to JP Morgan and asked if it is always the case that the biggest banks will seem the sturdiest and best able to take up failed banks. Yellen said not necessarily, noting that SVB and Signature were merged into smaller banks.

Rep. Wagner (R-MO) pointed to the G7 statement on decoupling from China and said that it is essential that we decouple from Chinese entities that are participating in human rights abuses. She asked how Treasury is planning to derisk the US economy from the genocide of the Uyghurs. Yellen pointed to sanctions on companies involved in this. Wagner wanted to see this list. Yellen added that they have sanctioned Chinese individuals and entities. Wagner wanted this list and turned to a Bloomberg Report on Chinese purchases of Iranian crude. She asked how many foreign financial institutions have been sanctioned as a result of these increased sales. Yellen said that they have a tight sanctions regime here. Wagner wanted a response on this and then turned to Taiwan joining IFIs. She asked if the Treasury would support Taiwan joining the IMF if they sought membership. Yellen said that she would have to look into this. Wagner said that her responses were unacceptable and then turned to the SEC's proposal on swing pricing and hard close, saying that she has seen no evidence that dilution is an issue for mutual funds. She asked Yellen for her perspective on this proposal. Yellen said that this is really a question for Gensler. Wagner asked her to answer all four of these prior questions in writing.

Rep. Green (D-TX) yielded time for Yellen to answer. Yellen said that the FSOC has talked about risk in connection to open end mutual funds, where there can be runs in situations where those who move first in open end funds are able to get better pricing than those who wait until later and this creates a financial stability risk, similar to the risk from MMFs, which has long been a subject of FSOC attention. She said that swing pricing is a way to eliminate first mover advantage and eliminate the odds of runs and fire sales. Yellen said that this occurred when the pandemic struck, and it is a reason that the Fed created a facility. Green turned to Yellen's testimony on the debt ceiling and how waiting until the last minute cannot be normalized. He asked how we are hurt on the world stage by waiting until the last minute. Yellen said that US Treasury securities are the benchmark for the trading of virtually all securities and the USD is the world reserve currency and this rests on the assumption that the US is a creditor that deserves a AAA rating. She noted that one rating agency has put us on negative credit watch and this threatens our status in financial markets and the wellbeing of Americans. Green noted that Pakistan has suffered from climate change via floods and hoped Yellen could help them via the IMF and World Bank.

Rep. Barr (R-KY) yielded time for Yellen to answer. Yellen said that they are supportive of the IMF's work there. Barr then turned to how Yellen previously said that our banking system is well capitalized and resilient. He asked if she still believes this. Yellen said, overall, yes. Barr asked if she supported a potential 20% increase in capital requirements. Yellen said that she has not seen

the details of the proposal that the Fed is considering, and they are committed to enacting Basel III proposals. Barr then turned to how he is concerned about US capital flows and investments in Chinese companies that threaten our national security. He appreciated her testimony on how the Biden Administration is considering an EO on outbound investment, but he thought Congress should act, hence why he has introduced legislation. the Chinese Military and Surveillance Company Sanction Act, which would impose OFAC sanctions on a variety of Chinese companies. He asked if Yellen would commit to pausing an outbound investment EO pending Congressional action. Yellen said that this is up to the President. Barr said that HFSC, the House Foreign Affairs Committee, and the Select Committee on the CCP are working collaboratively in a bipartisan way on an outbound investment screening legislative package and they would ask that the administration work with Congress in coordinating the EO with this legislative proposal. Yellen said that they could pursue conversations on this. Barr turned to a tabletop exercise they did on the invasion of Taiwan and how China would dump Treasury securities. He asked how they are planning to deal with this if it happens. Yellen said that they are not engaging in specific exercises to address this, but the NSC is certainly concerned about this. Barr encouraged the Treasury to make preparations and work with the Fed. He then turned to the EU's CSRD and asked what the Treasury is doing to ensure that this does not apply to US based firms. Yellen said that they are expressing their concerns to the EU.

Rep. Cleaver (D-MO) wanted to talk about GTOs (geographic targeting orders) and asked how the covered areas were selected for the implementation of the \$300,000 threshold for cash payments and geographic target areas for real estate purchases. Yellen said that FinCEN proposed a rule on real estate purchase which allows better insight into areas with illicit finance. With regard to the GTOs, she said that 14 areas were selected, but she would have to get back to him on the logic of selecting them. Yellen said that FinCEN has proposed a broader rule on real estate transactions as well. Cleaver noted FinCEN's proposed rule on commercial and residential real estate transactions and asked for a proposed timeline on this. Yellen said that FinCEN is actively working on this, but she could not give exact timing.

Rep. Williams (R-TX) noted how businesses have been struggling with inventory due to supply chain issues and how those who use LIFO accounting are hurt. He said that the Treasury can provide relief to these businesses via the tax code, and this would allow business owners to replace duplicated inventory and invest in employees. Williams said that he has been working to pass legislation on this and asked if Yellen is ready to provide LIFO tax relief through Sec. 473. Yellen said that she is aware of this issue, but she could not give a definitive response. Williams said that this legislation is bipartisan, and it is going to help Main Street and small businesses, so he hoped she would check in on this. Williams turned to FinCEN's Beneficial Ownership rule and was concerned that it went beyond statute. He said that business owners do not think there is enough guidance and fear they will be held liable. Williams asked what the Treasury is doing to educate business owners and when we can expect FinCEN to lay out a clear plan. Yellen said that FinCEN is working to finalize these rules and make the database available. She said that they will work with them on ensuring small businesses can comply. Williams then noted the issue of fentanyl and asked what the Treasury is doing to combat China's role in cartel financing. Yellen said that they have some sanctions in place and they are looking to prevent the provision of precursors.

Rep. Himes (D-CT) wanted to talk about China and said that Congress has whipped itself into a frenzy here. He thought this was a moment that calls for close statesmanship with China. Himes was pleased to see Yellen say that US economic efforts should be national security focused, not focused on undermining China economically. He asked if it is in the US interest to impoverish the Chinese people. Yellen did not think so but said that they do have legitimate national security concerns with respect to China. She added that the US and China gain from trade and investment that is as open as possible and it would be disastrous to decouple from China, saying that we should derisk instead. Himes then asked about the impact on US consumers if we cut trade with China in half. Yellen said it would have a negative impact and noted that we benefit from cheaper products and our ability to export to China. Himes said that attacking the national security side of this instead of economic growth is exactly what we need to do.

Rep. Emmer (R-MN) pointed to how the definition of recession has changed at the NBER and asked if the NBER gives weight to real personal income when determining if we are in economic decline. Yellen said that they look at a wide range of statistics. Emmer said that the answer is yes and asked if inflation is considered. Yellen said no. Emmer said that inflation is incorporated into real income and spending, which has increased significantly. He asked rhetorically if the average American income has increased 15.3% under the Biden Administration and said that the answer is no. Emmer said that the bureaucracy cherry picks the numbers so they can present their own narrative, but Americans know better. He said that inflation has not been transitory, and the Fed's only tool is to increase rates rapidly, which is harming low income Americans.

Rep. Foster (D-IL) said that there can sometimes be tension between the least cost resolution and consolidation of bigger banks. He asked if further guidance from Congress would be helpful. Yellen said that generally the larger banks are not allowed to seek mergers to get bigger. Foster asked if there was any way to tilt the playing field. Yellen said that this is something they could look at. Foster turned to the debt limit law and how it applies to different forms of debt issued by the Treasury. He asked if Yellen could respond to his office's question on this. Yellen said that they would try to respond. Foster turned to anti-corruption reforms in Ukraine and said that the issue with CBDC is traceability, but there could be a role for this with regard to Ukraine reconstruction in order to identify corruption. Yellen thought this was an interesting suggestion, but said they are already focused on corruption, traceability, and accountability for funds going to Ukraine.

Rep. Davidson (R-OH) noted that the Treasury hired economists to study the unintended effects of sanctions, which he thought was a good idea. He asked how they would evaluate collateral damage from sanctions and the impact on the USD. Yellen said that they want to ensure that they have experts looking at the economic impacts of sanctions. Davidson asked if she thinks there is a threat to the payment system we dominate today. Yellen said that the USD plays a huge role in transactions, and this allows our sanctions to be more effective. She said that some countries are looking at other payment systems, but no other country has deep, liquid financial markets and strong rule of law like the US. Davidson appreciated the need to preserve the role of the USD and noted that in fintech and cryptocurrency, much of the liquidity is offshore. He thought there was an effort to not trust American citizens here and asked if Yellen was familiar with the FinCEN RFI on banning self-custody. Yellen was not familiar with the details of this rule but said that they are concerned about the use of crypto and digital assets for illicit activity.

Davidson asked if they are trying to stop individuals from having self-custody. Yellen said that she has not had discussion on this. Davidson asked if she considered the CDFI Fund as a regulatory agency. Yellen said that they are not a regulatory agency, but they are considering certifications for CDFIs. Davidson then asked her to respond to getting them out of conservatorship. (QFR)

Rep. Beatty (D-OH) said that the threat of default is harmful to the US economy, and it creates opportunities for adversaries. She then turned to the surcharge that countries are paying to the IMF and pointed to her legislation on this. Beatty asked if this is worth looking at. Yellen said that they are supportive of the IMF surcharge policy as it provides incentives for borrowers to repay their loans. She said that she is not in favor of changing the IMF surcharge policy. Beatty then turned to the issue of putting Harriet Tubman on the \$20 bill and asked for comment. Yellen said that she is working to expedite this process.

Rep. Rose (R-TN) noted that the CDFI Fund proposed a new certification process and asked why they did not use the APA process for this process. Yellen was not sure but assumed that the PRA required the reduction of forms. Rose then asked why they have a blackout period to not meet with stakeholders. Yellen was not sure. Rose then asked if Yellen could speak to the important considerations for who should head the CDFI Fund. Yellen said that this is a career position, and it has to be based on merit. Rose noted how Yellen indicated on March 21st that deposits would be covered if smaller institutions suffered from contagion and then she changed her position. He asked for clarification on her position with regard to expanding deposit insurance. Yellen said that she never intended to suggest that they were proposing to expand deposit insurance but thought this was something they could look at and pointed to the FDIC's report on this. She clarified that she was prepared to work with regulators to take similar actions to those they took with SVB when there was a risk of systemic contagion. Rose closed by hoping she would keep the important role of community banks in mind.

Rep. Gottheimer (D-NJ) asked if our response to recent bank failures ensure the health of small and regional banks. Yellen said that diverse and different sized institutions help provide services to Americans which is important. Gottheimer thought the regulatory environment disadvantages small and regional banks, especially with regard to the bidding process for First Republic. He asked if these banks should have the ability to bid on these banks like larger banks. Yellen said that they do and there were multiple bids for First Republic, and they were not all large banks. She said that the FDIC accepted the lowest cost bid. Gottheimer said that he heard stories that banks were not allowed to bid and then shifted to the topic of digital assets. He asked Yellen to elaborate on the holes in the system with regard to digital assets. Yellen pointed to how the digital asset spot markets need oversight and that they need a regulatory framework for stablecoins. Gottheimer then turned to the SALT cap and asked Yellen if this cap favors states heavily subsidized by the federal government. Yellen said that it certainly has a disparate impact on different states. Gottheimer then asked what we are doing to address how we will be paying higher interest on the national debt going forward. Yellen pointed to the President's budget and how it cuts deficits.

Rep. Steil (R-WI) pointed to the pause on issuing US Treasuries and asked if she was concerned that this will alter the interest that the US receives on this. Yellen said that they need to build the

Treasury balance up to a safe level, but they are collaborating with market participants on the best way to do this. Steil asked what measures they will implement to address volatility and increased rates. Yellen said that they will issue Treasury bills and cash management bills and design them, so they are attractive to market participants. Steil said that he was frustrated that the President did not negotiate sooner so the Treasury would not have to do this. He then turned to the Russia-Iran relationship on drones and asked what measures the Treasury has taken on this. Yellen said that they are working to ensure that US sanctions on military equipment are not evaded. Steil asked if anything should be done specifically that has not been done to date. Yellen said that they are constantly reevaluating sanctions to ensure they are effective. Steil then turned to how we need to push back against EU regulation and asked if the Administration is planning to adopt or mirror EU regulation. Yellen said that they are looking at the EU's CSRD and the impact on US firms and they are making their concerns known to the EU.

Rep. Gonzalez (D-TX) noted that adversaries have been working to undermine the USD and asked what the biggest risk to the USD is. Yellen emphasized that our commitment to pay our bills makes the USD the reserve currency and delays in raising the debt limit are concerning. Gonzalez asked if we should be more thoughtful in imposing sanctions. Yellen agreed that other countries will look to other currencies besides the dollar, but it is difficult for them to do this when we work with allies. She said there is no meaningful workaround to the USD. Gonzalez asked if the use of the dollar has diminished. Yellen said that the holding of reserve assets in USD has been reduced, but this should be expected. Gonzalez then turned to depreciation deductions and how this was included in the IRA but noted that these deductions do not apply to oil and gas producers. (QFR)

Rep. Timmons (R-SC) said that he and Yellen disagreed on inflation being transitory. He said that Yellen was wrong on this, and this has impacted the American people. Timmons noted that he also opposed the proposal to collect the balance amounts in American's bank accounts. He then asked if Yellen agreed that it is important for the USD to remain the global reserve currency. Yellen agreed. Timmons asked why. Yellen said that it is the safest and most sought after asset. Timmons asked why Biden has nominated Bernstein to be Chair of the CEA since he thinks that the USD should be removed as the global reserve currency. Yellen could not speak to Bernstein's views on this. Timmons then turned to the debt to GDP ratio and had serious concerns about our high spending impacting the USD as the reserve currency. He asked if she had similar concerns. Yellen said that we are on a fiscally sustainable path, pointing to Biden's budget which would reduce deficits.

Rep. Pressley (D-MA) wanted to discuss the racial wealth gap and said that this gap is over \$10 trillion. She asked if Yellen agreed that we have a colossal racial wealth gap. Yellen said yes and the administration is committed to addressing this. Pressley noted the minorities face redlining and unfair home valuations and thought that we need federal reparations to close the racial wealth gap. She asked Yellen to speak to the work of the Treasury Advisory Committee on Racial Equity (TACRE). Yellen said that this committee helps the Treasury evaluate areas where they need to recognize discrimination taking place and change policies accordingly. Pressley said that she and Booker have legislation on baby bonds for low income Americans and asked if the Treasury should further look into this to address wealth inequality. Yellen said that this is a key priority of the administration and she thought this was a constructive suggestion.

Rep. Norman (R-SC) said that we are getting to the point where interest on our debt will match our military budget and he did not think this fit with us being on a sustainable path. He pointed to the X-date change and asked if she got with the President on this in order to ramp up the pressure in the media. Yellen said that nothing about the advice she gave to Congress was political and she told Congress in January that their balances would not be sufficient in early June. Norman pointed to their letters on the metrics Treasury used to determine the X-date and she never responded. He noted the sanctions on Russia and asked if enabling the Nord Stream pipeline enabled Russia to get revenue. Yellen said that the Administration has been opposed to Nord Stream 2. Norman asked why it is being built now then. (QFR)

Rep. Horsford (D-NV) yielded his time to allow her to answer the questions about the X date. Yellen said that her first letter to Congress indicated that they were confident that they could pay the bills through early June. Horsford said that Republicans caused this manufactured debt crisis and without Democratic votes, this would have caused a default. He noted that we have also heard Republicans demanding fiscal austerity, but now they are working on tax cuts. Horsford asked Yellen if she had any insight into the consequences of lost tax revenue from the proposed tax cuts. Yellen said that they would benefit wealthy individuals and corporations, adding that it is not paid for and would exacerbate the debt. Horsford then asked about the macroeconomic costs of doing away with clean energy tax credits, including for vehicles. Yellen noted that there is more investment in the clean energy economy due to the IRA and this would have a harmful effect.

Rep. Meuser (R-PA) wanted to cover the EU's CSRD and said that this could impact the businesses and stock prices on the S&P 500. He asked if we are pushing back on the EU's CSRD. Yellen said that they have concerns about its impact on US firms. Meuser asked if they are doing a cost benefit analysis of the impact. Yellen did not think they would do a cost benefit analysis, but they are voicing their concerns to the EU. She added that this legislation is also not final so it is unclear what the impact will be. Meuser then asked if the Treasury, Fed and White House look at the economy as a whole and look at having pro-growth initiatives. Yellen said that they take a holistic view of the economy. Meuser thought the growth strategy was to spend more. Yellen said that a growth strategy does involve investing in America.

Rep. Garcia (D-TX) was troubled by the number of businesses that are beginning to not accept the dollar, noting that they do not take cash and there is a bigger reliance on credit cards. She asked about the impact of this on the dollar and how we are doing with the interest rate on credit cards and transaction fees on credit cards. Yellen said that credit cards use the dollar as currency and electronic payments are becoming faster and cheaper. She said that credit card fees remain high, and it is important to foster innovations that will improve and reduce the costs of making payments. Yellen pointed to how FedNow will make 24/7 real time payments a reality in the US, and she hoped this would lead to cheaper, faster, and safer payments. Garcia then asked where we are on the development of a US CBDC. Yellen said that they have a task force looking at the costs and benefits of doing this and she hoped they could consult with Congress on this. Garcia noted that she would submit questions in writing, but thanked Yellen for her commitment to the USD.

Rep. Meuser (R-PA) said that members would have five legislative days to submit questions to the record and he asked Yellen to respond no later than July 14.