April 1, 2022

Memorandum

To: Members, Committee on Financial Services
From: FSC Majority Staff
Subject: April 6, 2022, Full Committee Hearing entitled, "The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System"

The full Committee will hold a hybrid hearing entitled, "The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System" on Wednesday, April 6, 2022 at 10:00 am Eastern in room 2128 of the Rayburn House Office Building/ Cisco WebEx platform. There will be one panel with the following witness:

- **The Honorable Janet L. Yellen**, Secretary of the Treasury

Background

The International Financial Institutions Act (22 U.S.C. §262r-4) requires the Secretary of Treasury to present testimony annually before the House Financial Services Committee on the state of the international financial system and U.S. priorities with respect to U.S. participation in the international financial institutions. The Secretary of the Treasury will also discuss other issues related to U.S. global economic cooperation and major international developments affecting the U.S., including Treasury's role in implementing and enforcing sanctions against Russia.

The current global economic order established by the west with United States leadership after World War II is underpinned by western values of respect for the rule of law and human rights, democratic governance with systems of checks and balances, markets as the engines of growth, and a robust public sector to address market failures, provide social safety nets, and ensure that the benefits of growth are broadly shared. The international framework for the post-war global economic system also established the International Monetary Fund and the World Bank as central pillars of global economic cooperation.

U.S. Participation in the International Financial Institutions

The Department of the Treasury is the lead agency responsible for U.S. engagement with the international financial institutions (IFIs), including the International Monetary Fund (IMF), the World Bank, and the regional development banks. Collectively, these institutions are the largest providers of climate finance globally, and they continue to play a leading role in the global response to the COVID-19 pandemic.

Special Drawing Rights

Created by the IMF in 1969 to supplement the official reserves of its members, countries can hold Special Drawing Rights (SDRs), a special reserve asset of the IMF distributed to each member country in proportion to its shareholding in the Fund, as part of their precautionary reserve balances or convert SDRs for hard currency to finance balance of payments needs, adjust the composition of their reserves, or pay back IMF loans.[1] In August 2021, the IMF approved a $650 billion allocation of SDRs, of which $275

[1] International Monetary Fund, *Special Drawing Rights (SDRs)*, (Accessed: Apr. 1, 2022)

billion went to emerging market and developing countries, including $21 billion to low-income countries, to help transform the global pandemic crisis into a fair and resilient economic recovery.[2]

A primary concern of those opposed to such an allocation was that it would also provide unconditional liquidity to countries who act against U.S. interests, such as China, Russian, Iran, Syria, Venezuela, and Belarus. Eight months after the SDR issuance, these geopolitical objections have so far proved to be unfounded.[3] [4] The Department of Treasury has noted that while Russia and Belarus did receive their legal share of the recent SDR allocation, they will not be able to use them. In fact, to date, Belarus has not used any of its new SDR holdings, and Russia continues to hold virtually all of its recently acquired SDRs as well. Given the recent G7 sanctions against transactions with Russia's central bank, and the raft of new sanctions against Belarus, it would be difficult for any country to convert the SDRs of either country without running afoul of international sanctions.

Resilience and Sustainability Trust

In July 2021, the IMF Board of Directors found that "climate change is a global existential threat that poses critical macroeconomic and financial policy challenges for the whole Fund membership in the coming years and decades."[5] The U.S. has led efforts within the G-7 and G-20 group of nations to support a $100 billion Resilience and Sustainability Trust (RST) at the IMF to advance global public policy goals, such as pandemic or climate resilience financing, in low-income and middle-income countries.[6] The RST is expected to be available to low-income countries, vulnerable and developing small states, and some middle-income countries.[7] The RST will be funded by SDRs channeled from advanced and several large emerging market countries.[8] Further specifics on the RST, including conditionality terms, access to financing, and expected collaboration with other international institutions, are expected to be deliberated and announced throughout 2022.[9]

Conditionality

Given its role in dealing with countries in crisis, the IMF became known as an enforcer of tough reform policies—called "conditionality," which today is widely referred to as "austerity"—that attaches to its financing and is designed to address the balance of payment problems that occasioned the need for IMF financing. The Fund has been criticized for the number, scope and pacing of reform measures it imposes on countries in crisis, which short-term economic pain, and have been characterized as insufficiently attentive to questions of equity and whether the burden of economic adjustment is equitably shared in a society.

In a shift, the IMF's response to the COVID pandemic-induced economic crisis has proven to have less conditionality on fiscal adjustment. According to one study, the IMF financed over 100 programs in

[2] International Monetary Fund, *IMF Governors Approve a Historic US $650 Billion SDR Allocation of Special Drawing Rights*, (Aug. 2, 2021).
[3] Atlantic Council, *IMF delivers fiscal firepower* (Aug. 23, 2021).
[4] Canter for Business and Government, *The Dog that Has Not Barked: Use of the 2021 SDR Allocation* (Feb. 2022). Publication pending.
[5] International Monetary Fund, *IMF Strategy to Help Members Address Climate Change Related Policy Challenges—Priorities, Modes of Delivery, and Budget Implications* (Jul. 30, 2021).
[6] International Monetary Fund, *Sharing the Recovery: SDR Channeling and a New Trust*, (Oct. 8, 2021).
[7] This Day, *IMF Proposes $50bn Trust Fund to Help Low-income Countries* (Jan. 21, 2022).
[8] Boston University Global Development Policy Center, *Experts React – G20 Calls for a Resilience and Sustainability Trust at the IMF* (Oct. 14, 2021).
[9] Center for Global Development, *The IMF's New Resilience and Sustainability Trust: Demystifying the Debate over Upper Credit Tranche Conditionality* (Dec. 22, 2021).

2020. Aside from 13 of them, the vast majority had no, or few, strings attached to them. Many of the IMF programs also encouraged members to prioritize health expenditure and social spending, and to protect vulnerable populations.[10] The IMF has begun to signal that once the pandemic ends and the global recession eases, public finances will have to be put back in order, especially in countries where debt was already high before the pandemic arrived.[11] This has revived long-standing criticisms of the Fund's approach to crises, including fiscal consolidation that disproportionally impacts vulnerable communities, exacerbates global levels of inequality, and hinders an equitable and inclusive recovery.[12]

International Development Association (IDA)

IDA is the arm of the World Bank that provides grants and concessional loans to the world's poorest countries. Every three years, donor countries meet to negotiate a new round of contributions to IDA, known as a replenishment. The current IDA-19 replenishment, which covers the period from July 2020 to June 2023. In response to the pandemic, the World Bank frontloaded approvals during the first two years of IDA-19 in the amount of $70 billion, leaving only $12 billion available for poor countries in the third year of the replenishment. In order to prevent a drop off in funding in the final year of IDA-19, and to support a durable recovery from COVID-19 in IDA countries, IDA donors and management decided to advance the IDA-20 replenishment negotiations by one year. An early replenishment would allow IDA to maintain assistance at levels around $35 billion per year for at least the next two years.[13]The World Bank has also been criticized, however, for slowing down the disbursement of its COVID lending by attaching long-term reforms that had to be met as a condition for receiving assistance. Research by the Center for Global Development found that over two-thirds of the Bank's emergency budget support contained long-term reform conditions not directly relevant to the COVID-19 crisis.[14]

IDA's New Financing Model

Every multilateral development bank (MDB) in which the U.S. is a member that issues bonds was granted an exemption by Congress from certain SEC registration and reporting requirements. These exemptions were included in the U.S. laws that originally authorized the U.S. to join these institutions. Congress granted these exemptions because of the special character of the MDBs, their role in the global economy, and in recognition of the fact that it was in the interest of the U.S., as a major shareholder in each institution, to make every reasonable effort to promote their effectiveness. Because IDA was not initially designed to raise funds in the capital markets, it did not need such an exemption. However, in its budget request, Treasury is seeking an exemption from SEC registration and certain reporting requirements for IDA so it can raise funds more cheaply in the U.S. capital markets.

Response to Russia's Invasion of Ukraine

On February 24, 2022, Russian President Vladimir Putin launched an unprovoked, illegal invasion of Ukraine.[15] Russian forces have since continued their assault on the capital, Kyiv, as well as major cities throughout the country, with reports of forces targeting civilians, communications, and public

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[10] Gallagher, K.P., and Maldonado Carlin, F. *"IMF Responses to COVID-19"*, *COVID Economics*. Boston University Centre for Economic Policy Research, (42) (Aug. 19, 2020).
[11] Gallagher, K.P., *"The IMF's Return to Austerity?"* International Politics & Society (Oct. 13, 2020).
[12] Tamale, N., *Adding Fuel to Fire: How IMF demands for austerity will drive up inequality worldwide*, Oxfam (Aug. 11, 2021).
[13]International Monetary Fund, *Sharing the Recovery: SDR Channeling and a New Trust*, (Oct. 8, 2021).

[14] Center for Global Development, *World Bank Budget Support in the Time of COVID: Crisis Finance… with Strings Attached*, (July 8, 2021).
[15] T. Lister et. al., *Heres what we know about how Russia's invasion of Ukraine unfolded*, CNN (Feb. 24, 2022).

infrastructure.[16] In the first month of the invasion, an estimated 6,200+ Ukrainian civilians were killed, in addition to an estimated 2,000-4,000 Ukrainian troop and 7,000-15,000 Russian troop casualties.[17] The United Nations High Commissioner for Refugees (UNHCR) reports that since February 24th, over 3.9 million Ukrainians have fled the country and another 6.5 million people are internally displaced.[18] Ukraine's top economic advisor estimates that invading Russian forces have caused at least $100 billion dollars' worth of damage to infrastructure, buildings, and other physical assets in the country.[19]

Financial Sanctions to Date

Between February 21-March 17, 2022, the United States and its allies in the EU, UK, non-EU European countries, Switzerland, Canada, Australia, New Zealand, Japan, South Korea, Singapore, and Taiwan, among others, have imposed or announced sanctions, export controls, or both in response to Russia's invasion of Ukraine.[20] Many sanctions imposed by U.S. allies are identical or like U.S. sanctions, the result of the Biden Administration's close coordination of sanctions policy between the U.S. and its allies.

The United States, EU, UK, Canada, and Japan suspended transactions with Russia's central bank, blocking Russia's access to about half of its estimated $630 billion in foreign exchange reserves.[21] Though, Russia's central bank can still access approximately $220 billion of its reserves held in China or stored in gold in central bank vaults.[22] Additionally, SWIFT (Society of Worldwide Interbank Financial Telecommunication), the main international financial messaging system for processing financial transactions, removed seven key Russian financial institutions, making it extremely difficult for Russian banks to process cross-border payments.[23] The United States and allies also expanded sanctions on Russian sovereign debt, several Russian financial institutions, Russian defense entities, the parent company of the Nord Stream 2 natural gas pipeline project, Russian government officials, and certain Putin-affiliated oligarchs and their family members.[24] U.S.-specific sanctions also included tightening restrictions on U.S. purchases of Russian government bonds, limiting the ability of Russia's largest bank (Sberbank) to transact in U.S. dollars, and imposing full blocking sanctions (freezing assets and banning transactions) on Russia's second largest bank (VTB) and two Russian state investment funds (VEB and the Russian Direct Investment Fund, a Russian sovereign wealth fund).[25] In mid-March 2022, the Biden Administration further expanded sanctions to include prohibitions on new investment in the Russian energy sector and investment in any additional sector of the Russian economy, as determined by the Secretary of the Treasury.[26]

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16 K. Liptak and B. Klien, *Biden stops short of accusing Russia of war crimes as his UN ambassador says banned weapons are being moved into Ukraine*, CNN (Mar. 2, 2022).
17 D. Michaels, *NATO: Up to 40,000 Russian Troops Killed, Wounded, Taken Prisoner or Missing in Ukraine, The Wall Street Journal* (Mar. 23, 2022)
18 *Operational Data Portal: Ukraine Refugee Situation,* United Nations High Commissioner for Refugees (UNHCR) (Accessed Mar. 30, 2022).
19 D. Lawder, *Ukraine war damage tops $100 billion so far, economic adviser says,* Reuters (Mar. 10, 2022).
20 Congressional Research Service, *Russia's Invasion of Ukraine: Overview of U.S. and International Sanctions and Other Responses*, (Updated Mar. 18, 2022) (IN11869).
21 U.S. Department of the Treasury, *Treasury Prohibits Transactions with Central Bank of Russia and Imposes Sanctions on Key Sources of Russia's Wealth*, (Feb. 28, 2022).
22 Congressional Research Service, *New Financial and Trade Sanctions Against Russia*, (Mar. 17, 2022). (IFI12062).
23 European Commission, *Joint Statement on further restrictive economic measures*, (Feb. 26, 2022).
24 Congressional Research Service, *Russia's Invasion of Ukraine: Overview of U.S. and International Sanctions and Other Responses*, (Updated Mar. 18, 2022) (IN11869).
25 Ibid.
26 Congressional Research Service, *New Financial and Trade Sanctions Against Russia*, (Mar. 17, 2022). (IFI12062).

Hidden Assets and Sanctions Evasion

At the direction of President Biden, on March 2, 2022, U.S. Attorney General Merrick Garland announced the creation of an interagency law enforcement team, Task Force KleptoCapture, to coordinate prosecutors and other federal investigators to enforce sanctions imposed against Russian officials and oligarchs in response to the invasion of Ukraine. This unit, which includes Treasury, will pursue asset forfeiture of illegally derived oligarch and other sanctioned persons' assets, such as yachts and mansions.[27] Complementing this effort is the Russian Elites, Proxies, and Oligarchs (REPO) multilateral task force, launched by AG Garland, Secretary Yellen, and allied governments on March 16, 2022, intended "to collect and share information to take concrete actions, including sanctions, asset freezing, civil and criminal asset seizure, and criminal prosecution."[28] That same month, the Financial Crimes Enforcement Network (FinCEN) issued two Alerts to assist financial institutions in identifying suspicious transactions related to likely methods of Russian sanctions evasion.[29] [30] Methods covered include the use of anonymous corporate and trust entities, convertible virtual currencies, cyber-enabled financial crime, real estate, luxury goods, and other high-value assets.

World Bank and International Monetary Fund Response

On March 2, 2022, the World Bank issued a statement noting that it had stopped all its programs in Russia and Belarus with "immediate effect" and had not approved any loans or investments in Russia since 2014 nor in Belarus since mid-2020.[31] The day prior, the International Monetary Fund (IMF) and the World Bank issued a joint statement noting that both institutions are working to support Ukraine directly, as well as to "assess the economic and financial impact of the conflict and refugees on other countries in the region and the world" and "provide enhanced policy, technical, and financial support to neighboring countries as needed."[32] The IMF extended through 2022 an existing $5 billion loan for Ukraine with $2.2 billion available through this loan program between now and the end of June.[33] The World Bank is preparing a $3 billion package of support, starting with a fast-disbursing budget support operation for at least $350 million.[34] The Ukrainian Central Bank has asked the IMF and the G-7 major economies to limit the participation of Russian and Belorussian representatives in their activities.[35]

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[27] U.S. Department of Justice, *Attorney General Merrick B. Garland Announces Launch of Task Force KleptoCapture*, (Mar. 2, 2022).
[28] U.S. Department of Justice, *U.S. Departments of Justice and Treasury Launch Multilateral Russian Oligarch Task Force*, (Mar. 16 2022).
[29] FinCEN, *FinCEN Advises Increased Vigilance for Potential Russian Sanctions Evasion Attempts*, (Mar 7, 2022).
[30] FinCEN, *FinCEN Alert on Real Estate, Luxury Goods, and Other High Value Assets Involving Russian Elites, Oligarchs, and their Family Members*, (Mar. 16, 2022).
[31] The World Bank Group, *World Bank Group Statement on Russia and Belarus*, (Mar. 2, 2022).
[32] The World Bank Group, *Joint IMF-World Bank Group Statement on the War in Ukraine*, (Mar. 1, 2022).
[33] Ibid.
[34] Ibid.
[35] Ibid.

Appendix: Legislation

- **H.R. 6891, the "Isolate Russian Government Officials Act of 2022" (Wagner), as amended.** This bill would make it the policy of the United States to seek to exclude government officials of the Russian Federation, to the maximum extent practicable, from participating in meetings, proceedings, and other activities of the Group of 20 (G-20), Bank for International Settlements (BIS), Basel Committee for Banking Standards (BCBS), Financial Stability Board (FSB), International Association of Insurance Supervisors (IAIS), and International Organization of Securities Commissions (IOSCO). This bill sunsets on the earlier of 5 years after enactment, or 30 days after the President certifies Russia has ceased its destabilizing activities with respect to the sovereignty and territorial integrity of Ukraine. Additionally, the President may waive the law's application if doing so is in the national interest of the United States.
- **H.R. 6894, the "No Energy Revenues for Russian Hostilities Act" (Barr).** This bill would prevent hard currency from supporting the Putin regime by prohibiting U.S. financial institutions from engaging in transactions related to Russian energy sales.
- **H.R. 6899, the "Russia and Belarus SDR Exchange Prohibition Act of 2022" (Hill), as amended**. This bill would prohibit the Secretary of the Treasury from providing U.S. dollars in exchange for any Special Drawing Rights held by the Russian Federation or Belarus. It also mandates that the Secretary of the Treasury vigorously advocate that other governments which hold freely usable currencies similarly refuse to convert any Special Drawing Rights held by the Russian Federation or Belarus into a hard currency. The legislation also mandates the Secretary of the Treasury to instruct the United States representative at each international financial institution to oppose the provision of financial assistance from the respective institution to the Russian Federation and Belarus, except to address the basic human needs of the civilian population. These mandates would terminate on the earlier of the date that is 5 years after the date of enactment of the bill or 30 days after the President certifies that the governments of the Russian Federation and Belarus have ceased destabilizing activities with respect to the sovereignty and territorial integrity of Ukraine. The bill provides a national interest waiver.
- **H.R. 6900, the "Russian Sovereign Debt Prohibition Act" (Huizenga).** This bill would prohibit secondary market trading of Russian sovereign bonds (including those issued by the Central Bank of Russia, Ministry of Finance, and National Wealth Fund of the Russian Federation) irrespective of the date of issuance of the bond.
- **H.R. 6979, the "Stop Onerous Surcharges Act" (C. Garcia)**. This bill would direct the U.S. Department of Treasury to support a review of the International Monetary Fund's surcharge policy and a pause on surcharges for the duration of the review."
- **H.R. 7066, the "Russia and Belarus Financial Sanctions Act" (Rep. Sherman), as amended**. This bill would clarify that U.S. financial institutions that are obligated to comply with various sanctions against Russia and Belarus, must take all necessary and available actions to ensure that any entity it owns or controls, including any foreign subsidiaries, comply with the sanctions.
- **H.R. 7081, the "Ukraine Comprehensive Debt Repayment Relief Act of 2022" (Rep. C. Garcia), as amended**. This legislation would direct the Department of Treasury to use the voice, vote, and influence of the U.S. at the International Monetary Fund (IMF), the World Bank and other relevant multilateral development banks to advocate for the immediate suspension all debt service payments owed to these institutions by Ukraine. It also directs the Secretary of Treasury, in coordination with the Secretary of State, to commence immediate efforts with other official bilateral creditors and commercial creditor groups to pursue similar comprehensive debt payment relief for Ukraine. The bill directs the United States Executive Director at each international financial institution to use the voice and vote of the United States to support the provision of

concessional financial assistance for Ukraine and economic support for refugees from Ukraine, including refugees of African descent, and for countries receiving refugees from Ukraine.

- **H.R. 7080, the "Nowhere to Hide Oligarchs' Assets Act" (Waters), as amended**. This bill would assist the Financial Crimes Enforcement Network (FinCEN), the nation's Financial Intelligence Unit, by removing the geographic limitation to its Geographic Targeting Order (GTO) authority and expanding the agency's inquiries about foreign financial agencies to include foreign nonfinancial trades or businesses.
- **H.R. 7128, the "Special Measures to Fight Modern Threats Act" (Himes).** This bill would amend FinCEN's existing Special Measures authorities to better target Primary Money Laundering Concerns which operate outside of the traditional banking sector.
- **H.R.___,** This bill instructs the U.S. executive director at each of the multilateral development banks to vote against any project that provides a public subsidy to a private firm unless the subsidy is awarded using an open, competitive process or on an open-access basis, and for other purposes.
- **H.R.___,** This bill requires public reporting requirements by the Department of Treasury for any project for which the U.S. votes in support of, or abstains from voting on, under Treasury's "Fossil Fuel Energy Guidance for Multilateral Development Banks (MDBs)," issued on August 16, 2021.
- **H.R.___, the "OFAC Exchange Act" (Lynch).** This bill would establish a public-private sector dialogue program at OFAC, designed to improve outreach and feedback regarding OFAC activities, similar to the mandated program that exists within the Financial Crimes Enforcement Network (FinCEN).
- **H.R.___, the "Financial Intermediary Transparency and Accountability Act".** This bill mandates the Secretary of the Treasury to instruct the United States Executive Director at the International Finance Corporation (IFC) to use the voice, vote and influence of the United States to seek the adoption at the IFC of a policy to require all existing and new Financial Intermediary clients to allow public disclosure on the IFC's website, in searchable form, and updated annually, of the environmental and social risk assessments and mitigation plans for all higher-risk subprojects.
- **H.R.___, the "Enhancing Equity and Transparency in IMF Lending Act".** This bill would mandate the use of poverty and distributional impact assessments on IMF loan programs to ensure that the burden of fiscal adjustment policies is not disproportionately borne by workers and vulnerable populations**.**
- **H.R.___, the "No More American Capital For Russia and Belarus Act".** This discussion draft would prohibit investment banks, underwriters, or broker-dealers from recommending or facilitating the trading, underwriting, mergers of any new Russia-based or Russia-related securities or companies, regardless the currency it is denominated in. The draft would apply same restrictions on shares of private funds, exempt offerings. The draft would prohibit mutual funds and asset managers from including any new Russia-based or Russia-related companies' stocks, including the shares of private funds and exempt offerings that are Russia-based or Russia-related, from being including in the fund or portfolio. Finally, the draft would prohibit hedge funds and private equity funds (collectively, private funds) from acquiring or investing in any new Russia-based companies or assets. The discussion draft would include a safe harbor for good-faith compliance and would have sunset provisions.
- **H.R.___, the "Delist Russia and Belarus from U.S. Exchanges Act".** This discussion draft would prohibit the listing and maintenance of listings of any Russia-related or Belarus-related securities by national securities exchanges. The discussion draft would also prohibit over-the-counter trading platforms and any broker-dealer (including alternative trading systems or internalizers) to facilitate the trading of any Russia-related or Belarus-related security.