United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510–6200

July 13, 2016

The Honorable Jack Lew
Secretary
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Secretary Lew,

The Senate Finance Committee has responsibility for oversight of the federal debt and Treasury's debt and cash management practices. I am writing today to once again request more information and greater transparency regarding Treasury's efforts to manage our nation's outstanding public debt, particularly with regard to contingency planning.

Currently, the total U.S. public debt stands at close to $19.4 *trillion*. Relative to the size of the economy, the debt is at levels not seen since the years surrounding World War II. Excessive debt presents significant risks, as the nonpartisan Congressional Budget Office has pointed out repeatedly in recent years. Debt crises can severely strain an economy, as highlighted by recent events in the Eurozone, Puerto Rico, and elsewhere.

However, Congress and the American public do not always have sufficient information from Treasury with respect to federal debt management. This is especially true with regard to contingency planning and deadlines tied to the statutory debt limit and expiration of what administration officials have deemed "extraordinary measures."

For nearly five years, I have requested detailed responses on a range of debt transparency matters from Treasury, the Federal Reserve (Fed), and other financial regulators. I have submitted these requests in writing, public hearings, and private conversation. Yet, instead of providing straightforward answers, Treasury, the Fed, and others have withheld important information which relates directly to the Finance Committee's oversight responsibilities.

Recently subpoenaed documents from Treasury and the Federal Reserve Bank of New York demonstrate that Treasury deliberately concealed information about the administration's debt management practices.[1] The documents, reported by the House Financial Services Committee, reveal that Treasury sought to limit communications to Congress and the public about contingency planning in order to "maximize pressure on Congress" to acquiesce to the

[1] House Committee on Financial Services and Subcommittee on Oversight and Investigations, The Obama Administration's Debt Ceiling Subterfuge: Subpoenaed Documents Reveal Treasury Misled Public in Attempt to "Maximize Pressure on Congress," Appendices 1 – 23, (2016), Staff Rep., available at http://financialservices.house.gov/uploadedfiles/debt_ceiling_report_final_01292015.pdf.

administration's position in debt limit negotiations.[2] The documents also indicate that the Treasury Secretary's testimony before Congress and responses to my inquiries were less than forthcoming on the existence of detailed contingency plans during the highly publicized 2011 and 2013 debt limit impasses, especially given that the New York Fed had run "tabletop" debt ceiling exercises since at least March 16, 2011.[3]

Put simply, it is unacceptable that Congress should have to subpoena documents from Treasury and the Fed to obtain basic information on management of the national debt. Yet, to date, that appears to be the only way to receive satisfactory answers to reasonable questions.

In the absence of what should be considered minimal accountability and transparency on the part of the administration, the public and Congress have been forced to rely on third-party analyses and reports in order to get a clearer picture of our nation's debt. For example, in recent episodes where breach of the statutory debt limit was imminent and knowledge of projected Treasury operating balances was critical information, Treasury officials directed Congress to projections made by think tanks and large Wall Street firms, rather than simply providing the necessary information. This is also unacceptable.

In addition to refusing to provide basic information about cash and debt management, both Treasury and the Fed have been unacceptably nontransparent with regard to contingency planning for potential outcomes, including rating downgrades on the federal debt and delayed payments on U.S. Treasury securities. In response to numerous inquiries to both agencies regarding such contingency plans, I have repeatedly been told that neither agency has submitted a plan to the President for potential responses to an unresolved debt limit impasse. Beyond being an obvious political diversion, these responses bear no relation to my requests for information about contingency plans for circumstances unrelated to the statutory debt limit, including a terrorist attack, cyberattacks, and severe weather events, all of which are well within the realm of possibility and could conceivably result in missed payments.

The Treasury Department has a fundamental duty to the public and Congress to be forthright about federal debt, management of cash and the debt, and planning for known risks. Lapses in accountability by the Obama Administration with respect to critical information related to the fiscal state of the country and lack of transparency continue to be concerning. The American people, whose hard-earned tax dollars will inevitably pay off the recent explosion of federal debt, deserve accountability and transparency. Therefore, I respectfully request full and substantive responses to the following questions:

[2] Ibid, Appendix 1.

[3] Ibid., Appendices 1-5, 7-9; The Debt Limit, Hearing before the Senate Comm. on Finance, 113th Cong. (2013), available at http://www.gpo.gov/fdsys/pkg/CHRG-113shrg88306/pdf/CHRG-113shrg88306.pdf; State of the International Financial System, Hearing before the House Comm. on Financial Services, 113th Cong. (2014), available at http://www.gpo.gov/fdsys/pkg/CHRG-113hhrg88540/pdf/CHRG-113hhrg88540.pdf.

1. What risks are currently faced by Treasury that could disrupt debt service, market access, and liquidity management?

2. What contingency plans are in place at Treasury to address those risks, keeping clearly in mind that I am particularly interested in plans by Treasury and the Fed to respond to delayed payments on Treasury securities, whether caused by a natural disaster, terrorist attack, cyberattack, debt limit impasse, or other catastrophic event?

3. Who has Treasury consulted with in the private sector in formulating contingency plans for delayed payments on Treasury securities over the past six years?

4. Given that Treasury has at times withheld information about the state of our nation's operating cash and cash projections on the grounds that such information is "market sensitive," how does the agency determine what is and what is not "market sensitive" for the purpose of refusing disclosure to Congress and the American people?

5. What security protocols are in place to prevent individuals or firms from trading for undue personal gain on "market sensitive" information possessed by the Treasury and shared with other federal agencies such as the Fed, and possibly others?

6. How do Treasury's disclosures to Congress and the American people of its debt, liquidity, and debt-maturity management strategies and plans differ from the disclosures to large financial institutions?

Please provide responses no later than August 1, 2016, to Jason Stegmaier of the Finance Committee.

Sincerely,

Orrin G. Hatch
Chairman, U.S. Senate Committee on Finance