



UPDATE 1-Treasury nominee: some swaps may stay off exchanges

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(Adds details from hearing, background)

WASHINGTON, March 2 (Reuters) - The nominee for the U.S. Treasury's top domestic post on Tuesday said he believed certain derivatives contracts, such as dollar swaps, could be exempted from being traded on exchanges under Obama administration proposals to boost market transparency.

Jeffrey Goldstein, who was named in July 2009 to become Treasury undersecretary for domestic finance, told the Senate Finance Committee that the administration's market reform proposals would prevent abuse and promote transparency, but there were certain cases where derivatives might be better off not traded on exchanges.

"I think that the exemptions would be in certain markets where you could adversely affect the trading of some important securities -- including the dollar swaps, and other things," Goldstein said, answering a question during a confirmation hearing. He added that he looked forward to examining the issue further with lawmakers.

Goldstein was asked about his views on currency swaps by Senator Maria Cantwell, a Democrat from Washington state, who criticized the use of cross-currency swaps employed by Goldman Sachs & Co <GS.N> on behalf of Greece as disguising the amount of Greece's public debt.

"It's all perfectly legal, but in my opinion its a scam, and we ought to have these regulated and on exchanges and have transparency and go through clearing houses," Cantwell said.

Goldstein said he believed that the Treasury's proposed improvements in trading practices for over-the-counter derivatives trade "is meant to restore confidence in the financial system and make sure that the we do not put taxpayers at risk in the way that occurred at the height of the financial crisis."

Senators also questioned Goldstein about the work one of his previous employers -- private equity firm Hellman & Friedman -- did to set up tax-shelter "blocker" corporations in the Cayman Islands on be half of clients.

Goldstein said these entities were set up to aid tax-exempt organizations such as pension funds and universities to maintain their income as tax exempt.

Asked by Finance Committee Chairman Max Baucus whether such corporations reduced income to the U.S. Treasury, Goldstein replied, "I'm no tax expert, Senator, but it's my understanding that these blockers are used almost exclusively if not totally for the purpose of tax-exempt entities in the United States."

The tax-writing Finance Committee has been particularly sensitive to tax issues involving Treasury nominees, questioning Treasury Secretary Geithner last year on mistakes he made in filing his personal income tax returns when he worked at the International Monetary Fund.

The panel also delayed consideration of Lael Brainard's nomination as Treasury undersecretary for international affairs due to an extensive income tax inquiry. Brainard's position has yet to be confirmed by the full Senate.

Nonetheless, Goldstein said he would be willing to work with the committee on the question of whether the so-called blocker corporations should continue to allow tax-exempt entities shield unrelated business income from taxation, calling it "an important policy question." (Reporting by David Lawder, Editing by Theodore d'Afflisio)

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