<u>Exchange Stabilization Fund Q&A</u>

1. **What is the Exchange Stabilization Fund (ESF)?**

   Section 10 of the Gold Reserve Act of 1934 created the ESF. By law, the ESF has a number of uses, including purchasing or selling foreign currencies to stabilize international financial markets and thereby prevent damage to U.S. exports and the national economy. The Treasury has a web page devoted to the ESF, describing its legal basis, history, and financial statements. Congress has appropriated funds to the ESF.

   http://www.treasury.gov/resource-center/international/ESF/Pages/esf-index.aspx

2. **How does the debt ceiling affect the ESF?**

   A portion of the ESF is held in U.S. dollars, and the dollar-balance of the ESF is invested in special-issue Treasury securities. The entire dollar-balance matures daily and is ordinarily reinvested. There is no requirement that the Treasury Department invest the ESF, so Treasury may discontinue investing the dollar-balance of the ESF during a debt limit impasse.

3. **How much headroom does this action regarding the ESF provide?**

   Approximately $23 billion.

4. **When is the last time Treasury intervened in the foreign exchange market through the ESF?**

   March 18, 2011, in a coordinated operation by the G7 involving sales of yen.

5. **Has the government ever suspended the daily reinvestment of Treasury securities held in the ESF before?**

   Yes, in the past 20 years, Treasury used this extraordinary measure during previous debt limit impasses in 1996, 2003, 2004 and 2006.

6. **Will this action extend the date on which the United States exhausts its borrowing authority beyond August 2, 2011?**

   No. Treasury's projection – that the extraordinary measures combined would enable Treasury to extend its borrowing authority until August 2, 2011 – already took into account using this measure.