



THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON

July 31, 2002

Frits Bolkestein
Member of the European Commission
Rue de la Loi 200/Wetstraat, 200
B-1049 Brussels
Belgium

Dear Commissioner Bolkestein,

I am writing to inform you of a development relating to the area of information exchange that will be of interest to member countries of the European Union.

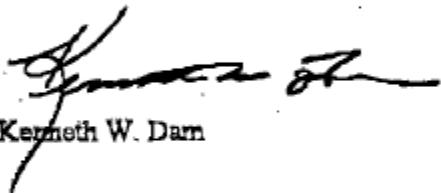
As you know, Secretary O'Neill has stressed the importance of the information exchange relationships we have established through our bilateral tax treaties and tax information exchange agreements. Secretary O'Neill has also made clear that the United States has no interest in participating in any effort toward tax harmonization and that protection of the confidentiality of taxpayer information is paramount. Subject to these parameters, appropriately tailored information exchange relationships can be a valuable tool in ensuring full and fair enforcement of our tax laws.

The United States Treasury Department shortly will be withdrawing the proposed regulations issued in January 2001 that would have required reporting of U.S. bank deposit interest payments to any nonresident alien individual. Those regulations are overly broad and not appropriately focused on the particular countries with which the United States has a bilateral tax treaty relationship that could support exchange of this type of information. Therefore, the Treasury Department will be issuing new proposed regulations that accord with the goals of the United States' existing bilateral tax treaty arrangements; the new proposed regulations, if adopted, would require reporting of U.S. bank deposit interest payments to residents of certain specified countries, including some within the European Union.

In the spirit of our candid and useful discussion at the time of your recent visit to Washington, I would like to point out that the purpose of the regulations is to facilitate appropriate bilateral information exchange with particular tax treaty partners of the United States. There is no linkage with the EU Savings Directive and our action should not be considered to anticipate the outcome of the technical discussions regarding the proposed EU Savings Directive that we agreed in May should continue. Indeed, any

suggestion that our action here anticipates eventual support for the proposed EU Savings Directive could adversely affect the technical-level discussions. I trust you will agree we should do our best to prevent any actions that would jeopardize continuation of these technical discussions.

Sincerely,

A handwritten signature in black ink, appearing to read "Kenneth W. Darn".

Kenneth W. Darn