IRS says thieves used its online services to obtain tax-return information for about 100,000 households.
The Obama administration, facing a push by U.S. lawmakers to insert language that targets currency manipulation in a major Pacific trade deal, is pitching a less-aggressive approach that would bolster international oversight and transparency of currency policies.

The Treasury Department says the “historic new approach” it envisions would bring exchange-rate provisions into trade negotiations for the first time and strengthen U.S. efforts to persuade countries not to use their currencies to gain unfair competitive advantages.

The administration hopes its strategy would help fend off efforts—largely by members of the president’s own party—to include provisions for binding sanctions against currency manipulators. The White House says those measures would sink the Trans-Pacific Partnership trade deal, a pillar of President Barack Obama’s plan to boost the U.S. economy and fortify economic and strategic ties in Asia.

The Senate late Friday passed legislation on what is known as fast-track authority, propelling the bill toward what is expected to be an even-more difficult path in the House next month. The Senate rejected a currency-manipulation amendment in the measure, also known as trade promotion authority, which would allow the Obama administration to complete the trade pact with Japan and 10 other nations and bring it to Congress for up-or-down votes as soon as this fall.

The Treasury Department’s proposal—pitched to TPP member countries in recent weeks—is preliminary and faces major hurdles. One option under consideration is to require better data on the key metrics for gauging currency management such as details on foreign-currency reserves and interventions. Many countries don’t provide that data to international institutions such as the International Monetary Fund, often leaving outside economists guessing about the extent of exchange-rate interventions.

Better data, the Obama administration argues, would give the U.S. a much stronger hand in diplomatic negotiations over currency policies.
It “will shed new light on country exchange rate practices” and promote greater accountability, Treasury Secretary Jacob Lew told lawmakers in a letter this past week.

Critics say the strategy is a political ploy. “It’s essentially window dressing,” said Simon Johnson, a Massachusetts Institute of Technology professor and former chief economist at the IMF who is advising lawmakers on crafting tough antimanipulation legislation. “It would have no substantial effect on the issue.”

Lawmakers advocating for binding currency rules, such as Rep. Sander Levin, (D., Mich.), the ranking member of the House committee responsible for trade policy, likewise argue that surveillance alone is insufficient.

The administration argues its plan could bring 40% of the global economy into a new regime in which currency interventions and foreign-exchange reserves are brought out of the dark. If agreed to by TPP countries, it could also force greater exchange-rate transparency from countries such as China and South Korea that may want to join the TPP in the future.

Besides the U.S. and Japan, the TPP trade deal under negotiation includes 10 other advanced and emerging economies around the Pacific Rim including Australia, Brunei, Canada, Chile and Malaysia.

Mr. Obama indicated this past week he would veto the fast-track legislation if it contained measures that would penalize countries for devaluing their currencies.

Other countries negotiating with the U.S. have shared the Obama administration’s position. Akira Amari, the Japanese minister in charge of trade talks said enforceable currency policies don’t belong in TPP talks. “Japan’s stance won’t change on this issue,” he told reporters in Tokyo earlier this month.

The administration argues that lawmakers’ antimanipulation measures could constrain U.S. monetary policy, which is designed to be independent. Proponents of tough sanctions say the legislation clearly distinguishes between
healthy monetary policy and direct intervention in currency markets.

Some emerging-market officials have blasted the Federal Reserve’s easy-money policies over the past several years—an effort to jump-start growth in the wake of the financial crisis—as currency manipulation to depreciate the dollar, though central-bank officials maintain their efforts were primarily aimed at domestic objectives.

“The reality is that the countries that we’ve talked to in the TPP have said they don’t want anything enforceable, and if we were to do something enforceable, it would have to also apply to the U.S.,” said an Obama administration official familiar with the talks.

Mr. Lew, however, told lawmakers in another recent letter that TPP members “indicated a willingness to constructively discuss our concerns about inappropriate currency policies,” including exploring stronger currency surveillance.” As part of its effort to bolster its exchange-rate diplomacy, the administration is also supporting a measure in Congress that would give it the ability to reject currency-manipulating countries from entering free-trade deals in the future.

Treasury officials credit the administration’s use of diplomacy for getting China to gradually boost the value of the yuan, curb currency interventions and improve transparency on its exchange-rate operations. The administration also points to Japan’s agreement in 2013 to avoid targeting specific exchange-rate levels.

Mr. Johnson said if oversight could fix the problem, the IMF would have been able to prevent, or at least curb, one of the biggest currency interventions in the past several decades: China’s management of the yuan.

Many U.S. companies and economists accused China of using a devalued exchange rate to supercharge exports and catapult the country into its position as the world’s the No. 2 economy at the expense of the U. S. and other nations.

Fred Bergsten, the founding director of the Peterson Institute for International Economics, said China’s currency practices in recent years cost the U. S. up to five million lost jobs.

Many analysts say the IMF, which is supposed to be the world’s independent arbiter of currency policies, has long had sufficient data to censure China’s exchange-rate policy. The fund’s rules prohibit competitive currency devaluation. But politics prevented the IMF from being an effective currency cop, they argue.
That is why lawmakers from manufacturing-heavy states are trying to shift responsibility as world currency cop to the World Trade Organization. Under their proposals, if a country is shown to be keeping its finger on the exchange-rate scales by buying foreign currencies, U.S. firms could seek remedy through the WTO.

But the administration official familiar with the talks said TPP-negotiating countries such as Singapore and Peru are worried that their monetary policies intended to ensure financial stability could be construed as competitive devaluations.

“The right solution will make sure the U.S. gets the upside of cracking down on currency manipulators, and avoids the downside of restricting our monetary-policy tool kit,” said Sen. Ron Wyden, (D., Ore.), the ranking member on the Senate Finance Committee. He’s backing the administration’s approach, saying the most effective tools are “transparency, reporting, monitoring and cooperative mechanisms.”

It is unclear whether the administration’s wider monitoring regime would prove more effective than the IMF’s existing surveillance of exchange-rate policies. That is a question of “whether the cosmetics of the issue differ very significantly from the substance” said Cornell University economist Eswar Prasad, a former head of the IMF’s China division.

“If the U.S. can somehow dress up what it is already being done and argue that it is going to be enhanced surveillance--with some additional indicators and monitoring--that could give them some cover,” he said.

—Mitsuru Obe in Tokyo contributed to this article.

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