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VIA FEDERAL EXPRESS & EMAIL

September 16, 2002

Government Securities Regulations Staff
Bureau of the Public Debt
999 E Street, N.W.
Room 315
Washington D.C. 20239-0001

Re: Proposed Amendments to Large Position Reporting Rules

Dear Ladies & Gentlemen:

The Bond Market Association¹ ("Association") and its Primary Dealers Committee² appreciate the opportunity to comment to the Bureau of Public Debt ("Bureau") on proposed amendments to the current reporting requirements for very large positions ("Large Position Rules" or "Rules") in Treasury securities ("Rule Proposal")³ recently issued by the Treasury Department ("Treasury").

A. Executive Summary

The Association supports the Rule Proposal because it enhances the ability of regulatory agencies to deter possible manipulation of the Treasury securities market. However, in order to ensure that the broader reporting obligations are not unduly burdensome for reporting entities, Treasury should modify the current reporting deadline.

¹ The Association represents securities firms and banks that underwrite, distribute and trade in fixed income securities, both domestically and internationally, including all primary dealers recognized by the Federal Reserve Bank of New York. Our members are also actively involved in the funding markets for such securities, including the repurchase and securities lending markets. Further information regarding the Association, its members, and activities, can be obtained from our public website <http://www.bondmarkets.com>.

² The Primary Dealers Committee is composed of senior representatives from the primary dealers in United States government securities whose name appears on the "List of the Government Securities Dealers Reporting to the Market Reports Division of the Federal Reserve Bank of New York" and inter-dealer brokers who serve as conduits between Primary Dealers in the Treasury and federal agency securities markets.

³ 67 Fed. Reg. 49,360 (July 31, 2002).

The Association believes that additional regulation is appropriate only if it produces a tangible benefit, such as increased market efficiency or integrity, enhanced investor protection or some other broad benefit. We also believe that the net benefits of any regulation can only be determined after taking into full account the costs and burdens such regulation imposes on regulated entities and our economy as a whole.⁴

Looking at the costs of the Rule Proposal, it will require many, if not all, of our members to reconfigure the type of single issue reports that their internal systems can generate. Nevertheless, the Rule Proposal is an appropriate modification of the current Large Position Rules because it should improve the depth of the information available to Treasury and other regulators thereby enhancing transparency and enabling regulatory authorities to better understand the causes of market shortages of Treasury securities. By modifying the reporting rules to separate reporting of the various components of a holder's "net trading position" and "gross financing position," the Bureau should be able to provide Treasury, the Federal Reserve Bank of New York ("FRBNY") and the Securities & Exchange Commission ("SEC") with better and more detailed information regarding market conditions for a particular Treasury security.

B. Discussion

Modifying the Methodology for Reporting Net Trading Positions

The Association supports more detailed reporting of net trading positions by large holders. Currently, the Rules require large holders to report a single figure representing their net trading position in the relevant security. This figure is the sum of five separate components: (i) cash/immediate net settled positions; (ii) net when issued positions; (iii) net forward positions; (iv) net futures contracts that require delivery of the specific security and (v) net holdings of STRIPS principal components of the security. The Rule Proposal would basically require separate reporting of each of these five components.

In order to comply with calls for large position reports, our members and their affiliates currently rely on functionality in their internal systems that allows these systems to be queried for holdings in a single Treasury security. Unfortunately, these systems will have to be modified to permit the more detailed queries that are necessary to complete the proposed new large position report. Separate reporting of each component of the holder's net trading position will, therefore, lead to additional compliance costs despite the fact that entities are already collecting this information in order to calculate their total net trading position.

⁴ See "Bond Markets 2000: A Conceptual Framework for Efficient Regulation of the Fixed-Income Markets." (October 21, 1998.) at 8. The Association argues in this paper that all regulations should be routinely examined to determine if their total costs exceed their total benefits.

The Association nevertheless supports this modification because it is important to ensure that Treasury and other regulators have sufficient information to detect possible manipulation of the Treasury securities market. In other words, the proposed modification is appropriate because the additional compliance costs it imposes are outweighed by the benefits that are derived by market participants as a whole.

Modifying the Methodology for Reporting Gross Financing Positions

The Association also supports more detailed reporting of financing positions. The Rule Proposal would make two important changes in the way financing transactions are reported. First, the Rule Proposal would revise the manner in which gross financing positions are reported by categorizing a reverse repurchase transaction as either an “overnight and open” trade or a “term” trade. Second, the Rule Proposal would require more detailed reporting as a separate memorandum item of the total gross par amount of securities delivered through repurchase agreements as well as securities loaned or delivered as collateral for financial derivatives and other securities transactions. As with the Rule Proposal’s expanded reporting of net trading positions, we view these proposed changes as appropriate because any additional compliance costs are outweighed by the broader benefits that are derived. However, we do urge Treasury to clarify in the final rule that the specific maturity date for a term repo transaction does not need to be reported.

New Memorandum Item

The Rule Proposal would also add a new memorandum item to the large position report for gross par amounts of “fails to deliver.” For the reasons mentioned above, we support this change.

Elimination of the Optional Exclusion

The Association also supports the elimination of the optional exclusion of certain securities received through financing transactions. The Rule Proposal would amend the “gross financing position” reporting obligation to eliminate the optional exclusion for securities received through financing transactions in which the counterparty retains a right of substitution or that are subject to third party custody arrangements or hold-in-custody (“HIC”) arrangements.

The proposed change would create a simpler and more unambiguous rule; a result that we believe will help reduce the compliance costs currently faced by potential reporting entities.⁵ While the optional exclusion was designed to give Treasury a more realistic portrait of who had control of large blocks of a particular Treasury security, it has also lead to some uncertainty among reporting entities

⁵ Id.

regarding when it is appropriate to utilize the exclusion. Eliminating the optional exclusion would, among other things, ensure consistent treatment of overnight reverse repurchase transactions and term repurchase transactions where the counterparty retains a technical right of substitution.

Applicable Reporting Deadline

Finally, you asked for comments on whether, based on the proposed changes, the current three business day reporting timeframe would be sufficient to allow reporting entities to complete the revised large position report. We do not believe it would be sufficient and urge Treasury to modify the applicable reporting deadline.

Because the Rules were first published back in 1996,⁶ our members have had substantial experience at responding to test calls for large position reports. This experience has shown that the current three business day turnaround period is insufficient time for some holders of large positions to file a single consolidated position report for all of their global affiliates with FRBNY. The tight reporting deadline is difficult to comply with and sometimes results in the need for expensive and time-consuming workarounds with foreign affiliates. In short, the current reporting deadline substantially raises the compliance costs faced by our members.

Given the fact that the primary dealers and many other large holders of Treasury securities have numerous overseas offices and affiliates, the typical reporting entity simply needs a lot of time to broadcast the notice overnight to all relevant overseas affiliates and to follow up repeatedly with these offices.⁷ Moreover, all of the primary dealers themselves conduct government securities related sales and trading activities around the world through numerous offices scattered across several time zones. Previous position information therefore has to be accurately gathered and tabulated from among all aggregating entities in each location before being forwarded to the reporting entity.

It is our understanding that difficulties still occasionally arise in contacting and gathering information from affiliated entities in different time zones, resulting in lost time and manual interventions. We also suspect that these minor problems will initially increase with the implementation of the broader reporting obligations contemplated by the Rule Proposal.

Therefore, we urge Treasury to modifying the applicable reporting deadline and extend the filing deadline by an additional 24 hours so that reporting entities have

⁶ See 61 Fed. Reg. 48, 338 (September 12, 1996.)

⁷ While it is certainly true that as part of a test many large global banks and other foreign financial institutions have previously filed large position reports with FRBNY in a timely manner, the regulatory burden and associated costs of compliance with these tests are not insignificant.

four full business days to comply. This would be the simplest way to avoid expensive workarounds and would generally reduce the administrative burden on dealers, investors and other large holders while still providing Treasury with detailed information in a timely manner.

An alternative (but less attractive) approach would be for Treasury to extend the existing reporting deadline by 24 hours only in those situations (such as the June 2001 call for large position reports) where holders are asked to report their positions "as of" the close of business on a date that is more than five business days before the announcement date. Restarting and querying old data files on issue specific end-of-day net trading positions, gross financing positions and fails have created some additional challenges for our members, and the changes contemplated by the Rule Proposal will require additional systems modifications for reporting entities. Therefore, a longer turnaround time is particularly appropriate in these specific circumstances.

Finally, regardless of whether Treasury is willing to modify the existing reporting deadline, we recommend that the release time for the relevant announcement be moved to 8:00 a.m. (EST) so that institutions would have more time to notify and follow up with foreign affiliates.

The Association appreciates this opportunity to comment on the Rule Proposal. If you have any questions regarding this letter, please feel free to contact me at 212.440.9448 or efoster@bondmarkets.com.

Sincerely,

Eric L. Foster
Vice President
Assistant General Counsel

cc: *U.S. Treasury Department*
Brian C. Roseboro, Assistant Secretary for Financial Markets
Timothy Bitsberger, Deputy Assistant Secretary for Federal Finance

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Primary Dealers Executive Committee

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Primary Dealers Committee
Funding Division Executive Committee
Government Operations Committee
Government Legal Advisory Committee
Funding Division Legal Advisory Committee
Legal & Professional Staff

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