

September 1, 2004

The Honorable Timothy Bitsberger
Assistant Secretary for Financial Markets (Acting)
United States Department of the Treasury
Office of Market Finance
1500 Pennsylvania Ave NW
Washington, DC 20220-0001

Re: Pre-Auction Announcement Release of CUSIP Numbers for Treasury Securities

Dear Mr. Bitsberger:

The Bond Market Association ("Association")¹ is writing to recommend that the U.S. Treasury Department ("Treasury") strongly consider releasing, for Treasury Bills, Notes and Bonds it anticipates issuing, the CUSIP for such securities at least one month in advance (excluding Cash Management Bills). The Association understands Treasury's desire for funding flexibility, and we believe releasing CUSIPs one month prior to the announcement date would facilitate the introduction of new issues at announcement time. As explained below, the Association believes that the pre-auction announcement release of the particular CUSIP numbers that will be used if and when a Treasury security is ultimately issued will improve the functioning of the when issued ("WI") market for Treasury securities.

Treasury usually releases the relevant CUSIP numbers at 11:00 a.m. on the auction announcement date, which typically is just several days before an actual auction. The auction announcement includes, among other things, the actual date and time of the auction, the size of the new issue, and the applicable threshold amount for reporting net long positions prior to the auction.

WI trading commences immediately following the auction announcement creating substantial stress on the internal systems dealers and electronic trading platforms used to process actual WI trades. Many dealer trading and pricing systems are "CUSIP directed." Therefore, having CUSIPs in advance of the WI period would allow dealers to fully populate the pricing on WI trades and facilitate more robust and efficient trading.

¹ The Association is an international trade association representing approximately 200 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 www.bondmarkets.com.

Currently some firms use “dummy” or made up CUSIP numbers² for the first day of trading or until they have time to update their systems with the correct number. However, this is not the best solution because many dealers are unable to submit prices using “dummy” CUSIPs thereby restricting electronic trading in “rolls” while other dealers have the capability but lack the development resources to implement the dummy code. The industry’s use of “dummy” CUSIP numbers indicates that dealers want to participate as fully as possible in the Treasury WI trading period. The “dummy” CUSIP practice, however, is at best, a “stop gap” solution. Given the growing demand from dealers and customers to engage in WI trading electronically, Treasury’s prerelease of CUSIP numbers would enhance the functioning of the WI market by allowing the updating and testing of a firm’s security data base setup prior to trading. Such testing would, in turn, help ensure accurate dissemination of electronic confirmations used to drive straight-through-processing (“STP”).

While releasing CUSIP numbers in advance of the commencement of WI trading may appear to raise certain issues, we believe the benefits far outweigh any theoretical risks. For instance, we understand that there may be some concern that releasing the relevant CUSIP number prior to the auction announcement date may create the impression that Treasury may be endorsing WI trading by market participants prior to the actual auction announcement date.

We believe, however, that this concern can be allayed. First, it’s important to note that dealers’ current use of “dummy” CUSIPs does not encourage WI trading prior to the applicable Treasury security announcement date. This suggests that the simple availability of actual CUSIPs would also not encourage dealers to trade prior to the announcement date. As well, the Association stands ready to create a clear convention for when WI trading should commence. By issuing a trading practice recommendation that specifies that WI trading should only commence after the official Treasury announcement for an auction (and not earlier), we can effectively discourage WI trading from occurring prior to the official announcement. In this regard, the Association has already reconvened its existing Treasury WI Trading Task Force (“Task Force”) and is working to schedule its first meeting. Having developed and published in 2001 its “Guidelines For Trading GSE Auctioned Securities,” that helped foster a WI market for Freddie Mac Reference Notes, the Association is convinced that the Task Force could agree rather quickly on a suitable set of WI trading guidelines for the U.S. Treasury market.³ We also believe that codifying the existing market conventions for WI trading

² “Dummy” or replacement CUSIP numbers are often generated by algorithms that attempt to anticipate the correct CUSIP numbers that are forthcoming.

³ In 2002, the Association actually explored developing WI trading guidelines for U.S. Treasury securities in response to the cancelled Treasury auction of September 11, 2001. However, those proposed guidelines were solely intended to address the consequences of a postponed or cancelled Treasury auction. The Task Force ultimately elected not to issue any guidelines because many of its members felt that a cancelled Treasury auction was a highly unlikely event and that the issuance of guidelines addressing such a scenario might be misinterpreted by market participants.

of Treasury securities will help the WI market for U.S. Treasury securities further grow and flourish.

Secondly, it is important to note that electronic trading platforms are currently able to prevent any trading in Treasury securities from occurring on their systems prior to a specified time or action, such as a change in the status of an issue. For instance, on most electronic platforms the “active box” on an announcement date of a new issue, usually holds information relating to the current 2, 3, 5, and 10-year note issues. The “box” also holds any WI securities that are in an “inactive” condition. This condition is changed to “tradable” as soon as Treasury publishes the official announcement. This practice would continue despite the fact that access to the actual CUSIP number for a forthcoming new Treasury issue was publicly available, and loaded in the systems. The Task Force could recommend that this feature be included on all electronic platforms.

We understand that Treasury might also be concerned that pre-release of CUSIPs may somehow restrict Treasury's ability to reschedule an auction due to exigent circumstances - such as an unanticipated technology problems with the auction system. We are of the view, however, that the release of CUSIPs prior to auction announcement date will not hinder Treasury's unilateral right under the Uniform Offering Circular (“UOC”) to cancel or postpone an auction. Under the UOC, Treasury always has the right to decide on the day of an auction not to issue its securities or to modify in any way the auction size.⁴ Also, if an unscheduled auction took place or if a new maturity was added to Treasury's issuance cycle, electronic trading platforms would be able to accept actual CUSIPs (if they were provided under such circumstances) or “dummy” CUSIPs thus allowing Treasury to maintain its funding flexibility. In addition, dealers are sophisticated market participants. They're fully aware that there always exists prior to announcement date the risk (albeit small) that Treasury may postpone or modify the auction issues identified on the Treasury Auction Calendar. The likelihood that dealers would seek to ignore this risk based on a simple operational enhancement to their back office's ability to load CUSIP information is very remote.

In sum, the Association would like to stress that Treasury's pre-release of its CUSIP numbers would be perceived by market participants as further evidence of Treasury's commitment to predictability in its auction schedule. The pre-release of CUSIPs would also allow inter-dealer brokers and electronic trading platforms to increase the volume of WI trades they handle, thus helping to increase liquidity in the WI market and, most importantly, potentially helping to lower Treasury's overall borrowing costs.

The Association appreciates this opportunity to share our thoughts with Treasury on this important issue. Along with the members of our Primary Dealers Committee and our Treasury WI Trading Task Force, we would be happy to meet with you to discuss this issue further and stand ready to assist in any way we can in further facilitating the growth of the WI trading market for your securities.

⁴ Section 356.33(a)(4), 31 CFR Part 356, Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds – Plain Language Uniform Offering Circular.

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Please do not hesitate to contact me at telephone 646.637.9222 or e-mail efoster@bondmarkets.com or my colleague Brian MacWilliams at 646.637.9227 or bmacwilliams@bondmarkets.com should you have any questions.

Sincerely,

Eric L. Foster

Vice President and Associate General Counsel

Managing Staff Advisor, Global Rates & Funding

cc: Mr. Brian Roseboro, *U.S. Department of Treasury*
Mr. Jeff Huther, *U.S. Department of Treasury*
Mr. Michael W. Sunner, *Bureau of Public Debt*
Ms. Lori Santamorenna, *Bureau of Public Debt*