



Buy-In Procedures for Government Securities

A. General

Capitalized terms used herein shall have the meanings ascribed in Section B of these procedures.

Treasury regulations implementing the Government Securities Act of 1986, as amended, require all government securities brokers and dealers to close out certain failed Government Securities transactions. Under these regulations, brokers and dealers must take prompt steps to obtain possession and control of Government Securities that are the subject of a Fully Paid Fail or a Sell Order Fail.¹

A broker or dealer that is an Originating Purchaser can satisfy its obligations under the Treasury Department's buy-in regulations by substituting, purchasing, selling or buying-in the Government Securities in question, in the manner described below.

B. Definitions

The following capitalized terms shall have the meanings given when used in these procedures:

"Comparable Securities" means Government Securities of a similar kind, quality and quantity as the Government Securities originally agreed to between a Seller and an Originating Purchaser or Re-transmitting Party, as applicable, with respect to attributes including but not necessarily limited to security type, coupon, final maturity and similar characteristics affecting the yield of such securities.

"Customer" means "customer" as that term is defined in Rule 15c3-3 under the Securities Exchange Act of 1934.

"Fully Paid Fail" means a situation in which a Customer's fully paid or excess margin Government Securities are recorded as "failed to receive" by a broker or dealer for more than thirty calendar days after the scheduled settlement date.

"Government Securities" means all government securities that are included in the definition of "government securities" as set forth in section 3(a)(42) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(42)). The Treasury Department and the Securities and Exchange Commission have taken the informal position that the buy-in rule applies to synthetic stripped Treasury securities such as CATS and TIGRs, even though synthetic stripped Treasury securities may not be government securities.

"GSCC" means Government Securities Clearing Corporation.

¹Note that in the case of Fully Paid Fails, the Treasury Department has granted an exemption from the buy-in regulations to GSCC netting members that are sole government securities brokers and dealers, for trades processed through GSCC's netting system. See Exhibit D for details on the availability and application of this exemption.

“Originating Purchaser” means a broker or dealer having the obligation to close out a transaction either (i) on behalf of its fully paid or excess margin Customer, or (ii) to complete a sell order (other than a short sale that was disclosed by a Customer to a broker or dealer on or prior to the execution date of the trade) received from its Customer.

“Retransmitting Party” means the party who retransmits a buy-in notice with respect to a Fully Paid Fail or a Sell Order Fail.

“Seller” means the party from whom Government Securities are due in order to close out a transaction.

“Sell Order Fail” means a situation in which Government Securities that are needed to complete a Customer sell order (other than a short sale that was disclosed by a Customer to a broker or dealer on or prior to the execution date of the trade) have not been received by the broker or dealer from its Customer within thirty calendar days after the scheduled settlement date.

C. Originating Purchaser’s Options

An Originating Purchaser must take one of the following actions to close out a transaction that is a Fully Paid Fail or Sell Order Fail:

1. Fully Paid Fails

Option (1): deliver to its fully paid or excess margin Customer the same or such Comparable Securities as may be agreed upon by such Customer and Originating Purchaser;

Option (2): repurchase the Government Securities from its fully paid or excess margin Customer; or

Option (3): conduct a buy-in of the Government Securities that are the subject of the Fully Paid Fail pursuant to the procedures specified in Section D below.

2. Sell Order Fails

Option (1): accept from the Seller in satisfaction of the Seller’s obligation under the original contract (which shall be concurrently canceled) the delivery of such Comparable Securities as may be agreed upon by such Seller and Originating Purchaser;

Option (2): sell the Government Securities back to the Seller on terms which provide that the Seller pay an amount which includes accrued interest and bear the burden of any change in market value;

Option (3): conduct a buy-in of the Government Securities that are the subject of the Sell Order Fail pursuant to the procedures specified in Section D below; or

Option (4): to the extent that the Seller’s failure to deliver Government Securities is caused by the Seller’s failure to receive such securities from another counterparty, the Originating Purchaser may effect a cash settlement of its transaction with the Seller (such settlement representing the difference, if any, between the amount owed by the Seller to its failing counterparty, and the amount owed to the Seller by the Originating Purchaser), and accept an assignment of the Seller’s failure to receive such securities from such other counterparty.

D. The Bond Market Association Buy-In Procedures

1. General

Buy-ins may be executed in both Fully Paid Fail and Sell Order Fail situations, and should be executed in a manner which enables an Originating Purchaser to obtain the same or Comparable Securities.

To implement the Treasury Department's requirements for Government Securities buy-ins, the Association has adopted the buy-in procedures set forth below, The Bond Market Association Model Notice of Buy-In (see Exhibit A), The Bond Market Association Model Notice of Retransmitted Buy-In (see Exhibit B), and The Bond Market Association Model Notice of Execution of Buy-In (see Exhibit C). In addition, several examples which illustrate the application of these procedures to both Fully Paid Fail and Sell Order Fail situations are attached as Exhibit D.

2. Notice of Buy-In

Buy-in notices for Government Securities may not be issued prior to the expiration of 30 calendar days after the originally scheduled settlement date for the transaction in question. To initiate a buy-in, an Originating Purchaser shall deliver a written notice (which may, but need not, be transmitted by telecopier) of buy-in to the Seller no later than 12:00 noon (New York time), at least ten (10) business days before the proposed execution date of the buy-in. The buy-in notice shall state the proposed execution date of the buy-in, and that such buy-in is being undertaken either on behalf of its fully paid or excess margin Customer, or to complete a sell order (other than a short sale that was disclosed by a Customer to a broker-dealer on or prior to the execution date of the trade) received from its Customer. Such buy-in notice shall further specify that if the Originating Purchaser is not notified of the completion of the original transaction by 3:00 p.m. (New York time) on the proposed execution date, the transaction may be bought in on such date for the account of the Seller. However, if prior to closing out a transaction for which a buy-in notice has been given, the Originating Purchaser receives from the Seller a written notice stating that the Government Securities are in transfer or in transit or are being shipped that day, and upon the Seller's provision of the certificate number(s) the Originating Purchaser may not execute the buy-in until the expiration of seven (7) calendar days from the proposed execution date contained in the buy-in notice. The buy-in notice shall also state:

- the name, address and telephone number of the Originating Purchaser;
- the name and address (Attention: Buy-In Department) of the Seller to whom the notice is being sent;
- the par value and specific description of the Government Securities involved in the transaction to which the buy-in notice relates;
- the contract price of the transaction;
- the trade date and original settlement date of the transaction to be closed; and
- a trade reference number or other unique form of identification of the failed transaction.

The Seller receiving such notice shall acknowledge receipt by signing and returning a copy of the buy-in notice to the Originating Purchaser. Such acknowledgment may, but need not, be transmitted by telecopier.

3. Executing the Buy-In

If, by 3:00 p.m. (New York time) on the proposed execution date (or such later date as may be specified in the event of an extension obtained pursuant to Section D.2 above for physical securities in transit), the Government Securities described in the buy-in notice have not been

delivered to the Originating Purchaser and the transaction has not otherwise been closed out, the Originating Purchaser may elect to buy-in the securities on behalf of the Seller. To buy-in a transaction as provided herein, the Originating Purchaser shall buy-in at the current market value all or any part of the same or Comparable Securities necessary to complete the transaction, for the account and liability of the Seller. Brokers and dealers are encouraged to work together to ensure that to the extent that delivery of Comparable Securities may be necessary to complete the transaction, any such Comparable Securities that are bought-in will be acceptable for delivery in satisfaction of the underlying transaction.

4. Retransmittal Notice

Buy-in notices may be retransmitted both for Fully Paid Fails and Sell Order Fails. A Seller who receives a buy-in notice may, within 24 hours of receipt (but in no event later than 12:00 noon (New York time)) at least two (2) business days before the proposed execution date of the buy-in as set forth in the original buy-in notice, or such later date as may be specified in the event of an extension obtained pursuant to Section D.2 above for physical securities in transit), retransmit the buy-in notice to another Seller.

In the event that any party receives a retransmitted buy-in notice for a transaction shown on its books and records as “failed to deliver” for less than 15 calendar days past the scheduled settlement date, and that party is not failing to receive the securities that are the subject of the transaction from a third party, then that party may immediately contact the Originating Purchaser, who shall be obligated to extend the proposed execution date of the buy-in by five (5) business days. In addition, in the event that a retransmitted buy-in notice is received less than two (2) business days prior to the proposed execution date, the receiving Seller may contact the Originating Purchaser, who shall upon request be required to extend the execution date to a date that is at least two (2) business days after the Seller received the retransmitted buy-in notice. Upon extending the proposed execution date in either case described above, the Originating Purchaser shall immediately thereafter notify by telephone (which notice shall promptly thereafter be confirmed in writing) the Seller to whom it retransmitted the original buy-in notice of the extended execution date. Each Seller who receives notification of an extension of the proposed execution date shall immediately thereafter notify by telephone (which notice shall promptly thereafter be confirmed in writing) any other Seller to whom it retransmitted the buy-in notice of the extended execution date. The retransmitted notice shall state:

- the name, address and telephone number of the Retransmitting Party;
- the name of each previous Retransmitting Party (which, in the case of a Customer, need only indicate “Customer” and not the specific identity of that Customer);
- the name and address (Attention: Buy-In Department) of the Seller to whom the notice is being retransmitted;
- the name, address and telephone number of the Originating Purchaser;
- the par value and specific description of the Government Securities involved in the transaction to which the retransmitted notice relates;
- the contract price of the transaction;
- the trade date and original settlement date of the transaction to be closed;
- the proposed execution date of the buy-in; and
- the trade reference number or other unique form of identification of the failed transaction, as it appears on the original buy-in notice.

The Seller receiving such notice shall acknowledge receipt by signing and returning a copy of the retransmitted buy-in notice to the Retransmitting Party. Such acknowledgment may, but need not, be transmitted by telecopier.

5. Notice and Effect of Execution

An Originating Purchaser buying in a transaction shall, immediately upon execution, notify by telephone the Seller for whose account the Government Securities were bought-in, of the quantity and price of the purchased securities. Such telephonic notice shall then be confirmed in writing on the execution date. Such confirmation shall specify the net amount of any monies due on the close-out of the transaction, including any accrued coupon interest and the amount of any principal amortization. Any monies so due shall be forwarded to the appropriate party by no later than one (1) business day after the settlement date of the buy-in.

An Originating Purchaser may execute a buy-in from its long proprietary position and/or Customers' accounts maintained with it. Buy-ins should be executed at a price that reflects fair market value of the security purchased, given market conditions at the time of execution. In all cases, the Originating Purchaser must be prepared to defend the price at which the buy-in is executed relative to such market conditions at the time of execution.

If the circulation of one or more retransmitted buy-in notices results in the identification of a round robin with respect to that transaction, every good-faith effort should be made by the parties involved to settle the round robin on mutually acceptable terms, to close out the transaction.

6. Non-Completion of Buy-In

If a transaction is not bought-in pursuant to these procedures by the end of the third (3) business day following the proposed execution date specified in the buy-in notice, such notice shall expire, at which time the Originating Purchaser shall be required to transmit a new buy-in notice in order to buy in the securities.

Exhibit A
The Bond Market Association Model
Notice of Buy-In for Government Securities

(Securities Broker or Dealer)

(Address)

Attention: Buy-in department

(Date of Notice)

To: _____

Re: _____
(Par Value and Description of Security, including Trade Reference Number)

which is due from you to the undersigned on a contract made on _____ at
(Date of Contract)
_____ for settlement on _____.
(Contract Price) (Settlement Date)

•••••

We hereby notify you that unless you notify us of delivery of the foregoing by 3:00 p.m. (New York time) on _____, the security will be bought-in for your account, [on behalf of our fully paid Customer] [to complete a sell order received from our Customer (other than a short sale that was disclosed by a Customer to a broker or dealer on or prior to the execution date of the trade)] (strike out inapplicable phrase).

Note: If some or all of the foregoing securities are due to you from another party, you may be permitted to retransmit this notice to that party within 24 hours of receipt.

Acknowledgment:

By: _____

Phone: _____

Please acknowledge receipt of this notice by signing above and returning to us a copy of this notice.

•••••

This notice is being sent pursuant to Part 403 of the regulations implementing the Government Securities Act of 1986, as amended, which require that government securities brokers and dealers (including financial institutions) take prompt steps to buy-in (i) Customer fully paid and excess margin government securities shown on books and records as "failed to receive" for more than 30 calendar days and (ii) all government securities that are needed to complete a Customer sell order (other than a short sale) if the securities have not been received from the Customer within 30 calendar days after the settlement date.

Exhibit B
The Bond Market Association Model
Notice of Retransmitted Buy-In for Government Securities

(Retransmitting Party)

1. _____ 2. _____ 3. _____ 4. _____ 5. _____
(Names of any previous Retransmitting Parties)

(Address)

Attention: Buy-in department

(Date of Notice)

(Name, address and telephone number of Securities Broker or Dealer Originating the Buy-In Notice)

To: _____

Re: _____
(Par Value and Description of Security, including Trade Reference Number)

which is due from you to the undersigned on a contract made on _____ at
(Date of Contract)
_____ for settlement on _____.
(Contract Price) (Settlement Date)

This buy-in notice was originated by the above-referenced broker or dealer [on behalf of its fully paid Customer] [to complete a sell order received from its Customer (other than a short sale that was disclosed by a Customer to a broker or dealer at or prior to the execution date of the trade)] (strike out inapplicable phrase).

We hereby notify you that unless you notify us of delivery of the foregoing by 3:00 p.m. (New York time) on _____, the security will be bought-in for your account.

Note: If some or all of the foregoing securities are due to you from another party, you may be permitted to retransmit this notice to that party within 24 hours of receipt.

Acknowledgment:

By: _____

Phone: _____

Please acknowledge receipt of this notice by signing above and returning to us a copy of this notice.

.....

This notice is being sent pursuant to Part 403 of the regulations implementing the Government Securities Act of 1986, as amended, which require that government securities brokers and dealers (including financial institutions) take prompt steps to buy-in (i) Customer fully-paid and excess margin government securities shown on the books and records as "failed to receive" for more than 30 calendar days and (ii) all government securities that are needed to complete a Customer sell order (other than a short sale) if the securities have not been received from the Customer within 30 calendar days after the settlement date.

Exhibit C
The Bond Market Association Model
Notice of Execution of Buy-In for Government Securities

(Name of Party Executing Buy-In)

(Address)

Attention: Buy-In Department

(Date of Notice)

(Name, address and telephone number of Securities Broker or Dealer Originating the Buy-In Notice — for retransmitted notices only)

To: _____

Re: _____
(Par Value and Description of Security, including Trade Reference Number)

which is due from you to the undersigned on a contract made on _____ at
(Date of Contract)
_____ for settlement on _____ .
(Contract Price) (Settlement Date)

•••••

Since the above-referenced securities were not delivered by you to the undersigned by 3:00 p.m. (New York Time) on _____, pursuant to a buy-in notice sent to you on _____, the
(Proposed Execution Date) (Date of Buy-In Notice)
following securities have been bought in for your account:

(Quantity and Description of Securities Bought-In)

(Execution Price of Buy-In)

(Settlement Date of Buy-In)

Net monies due upon completion of Buy-in:

Difference between buy-in execution proceeds and original contract proceeds	\$	_____
Accrued coupon interest from prior months, if applicable	\$	_____
Principal amortization, if applicable	\$	_____
	Total: \$	_____

(Attach schedule if necessary)

Exhibit D
Examples of Application of The Bond Market Association
Buy-In Procedures for Government Securities

Fully Paid Fails

Example A



Broker-Dealer #1 (“BD1”) has failed to deliver Government Securities to its fully paid or excess margin Customer (“C”) for more than thirty (30) calendar days. BD1 has in turn purchased the Government Securities it owes to C from Broker-Dealer #2 (“BD2”).

To close out this transaction, BD1 has the following options:

1. BD1 can deliver the same or Comparable Securities to C. However, BD1 and C must agree upon the securities to be substituted. This substitution would close out the original transaction between BD1 and C.
2. BD1 can repurchase the Government Securities from C, if C agrees. This repurchase would close out the original transaction between BD1 and C.
3. BD1 can buy-in the Government Securities it owes to C, for the account and liability of BD2. To do this, BD1 must send a notice of buy-in to BD2 at least ten (10) business days (but in no event prior to the expiration of the thirtieth (30th) calendar day after the scheduled settlement date) before the proposed execution date of the buy-in. If the securities described in the buy-in notice are not delivered by BD2 to BD1 by 3:00 p.m. (New York time) on the proposed execution date, BD1 is authorized to purchase at the current market value all or any part of the Government Securities, or Comparable Securities, needed to complete the transaction, for the account and liability of BD2. Any additional expenses or costs incurred by BD1 in acquiring these securities would be borne by BD2. However, in the event that prior to 3:00 p.m. (New York time) on the proposed execution date, BD2 notifies BD1 in writing that the Government Securities required to close out the transaction are in transit or are being shipped that day (and BD2 provides BD1 with the certificate numbers for the securities), then BD1 may not execute the buy-in until the expiration of seven (7) calendar days from the execution date specified in the buy-in notice.

Example B

BD2

BD1

C

Assume the same set of facts as set forth in Example A above, except that, in this example, assume that BD2 has purchased the securities it owes to BD1 from BD3; BD3 has purchased these securities from BD4; and so on, until reaching the original Seller, BD8.

BD1 has the same options available to it as in Example A above. However, upon receiving a buy-in notice from BD1, BD2 may either deliver the securities in question to BD1 to close out the transaction, or retransmit a buy-in notice to BD3. If BD2 wishes to retransmit a buy-in notice to BD3, it must do so within 24 hours after receiving the buy-in notice from BD1, and in any event at least two (2) business days prior to the proposed execution date of the buy-in set forth in the original notice from BD1.

Upon receiving a retransmitted buy-in notice, BD3 (and in turn, each of BD4, BD5, BD6 and BD7) has the option of delivering the securities in question to the party from whom it received the buy-in notice, or retransmitting a buy-in notice to the party that owes the securities to it. Note that to the extent that any of BD2 through BD8 is a Customer and not a broker or dealer, they would also have the option of delivering securities or, if applicable, retransmitting the buy-in notice, in each case under the same terms and conditions applicable to brokers or dealers. Retransmitting Parties may not, however, execute a buy-in. Retransmitted notices must be sent within 24 hours after receipt, and in any event at least two (2) business days prior to the proposed execution date of the buy-in set forth in BD1's original buy-in notice.

In the event that any party receives a retransmitted buy-in notice for a transaction shown on its books and records as "failed to deliver" for less than 15 calendar days past the scheduled settlement date, and that party is not failing to receive the securities that are the subject of the transaction from a third party, then that party may immediately contact the Originating Purchaser, who is obligated to extend the proposed execution date of the buy-in for five additional business days. Thus, in the example above, assume that on June 1st BD8 receives a retransmitted buy-in notice which carries a proposed execution date of June 5th. However, BD8 is failing to deliver these securities to BD7 for only ten (10) calendar days. In this case, BD8 may immediately contact BD1, who would then be obligated to extend the proposed execution date of this buy-in for five business days, to June 10th (assuming all days are business days). Note, however, that in the above example, only BD8 may request this extension from BD1. This is because BD8 is not failing to receive the securities it owes to BD7 from another party. Since each of BD2 through BD7 is failing to receive, as well as failing to deliver, they may retransmit any buy-in notice they receive, regardless of the age of their respect

confirm this notification in writing. In turn, BD2 would be required to notify BD3 of the extension of the execution date; similarly, any other Seller in the chain that has retransmitted a buy-in notice to another party would be required to notify that party of the extended execution date.

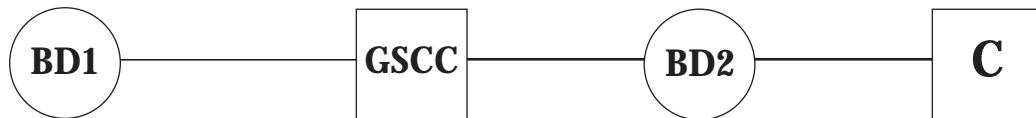
Example C

Exemption for Certain GSCC Netting Members

The Treasury Department has granted an exemption from the buy-in regulations in certain circumstances to GSCC netting members that are sole government securities brokers and dealers. This exemption is available to GSCC netting members that fail to deliver government securities to their fully paid or excess margin Customers, as a result of a failed trade processed through GSCC's netting system. In terms of the Association's buy-in procedures for government securities, the exemption is available to the party that would otherwise bear the responsibility for closing out a Fully Paid Fail, i.e., an Originating Purchaser.

The availability of the exemption is illustrated in the following two examples. Unless otherwise specified, in these examples all broker-dealers ("BDs") are both sole government securities brokers and dealers and GSCC netting members; all transactions are fails; and fails to fully paid Customers are outstanding for more than 30 days past the scheduled settlement date:

Example 1: Exemption Available:



Here, BD1 sells government securities to BD2 through GSCC's netting system, and BD2 in turn sells these securities to its fully paid Customer, C. In this situation, BD2 is exempt from the Treasury Department's buy-in regulations, since (1) it is a GSCC netting member; (2) it is a sole government securities broker or dealer; and (3) the failed trade that caused BD2's failure to make delivery to its fully paid Customer was processed through GSCC's netting system.

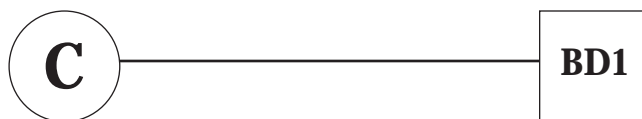
Example 2: Exemption Not Available:



In this example, BD1 sells government securities to BD2 through GSCC's netting system. BD2 sells these securities to BD3 (who is not a GSCC netting member), who in turn sells them to its fully paid Customer, C. In this situation, BD3 would be obligated to obtain possession and control of the failed securities for delivery to C, through a buy-in procedure or otherwise. Thus, BD3 can initiate and transmit a buy-in notice to BD2, and BD2 can retransmit this notice through GSCC, who will in turn retransmit the notice to an appropriate party. Note that even if BD3 were a GSCC netting member, but purchased the securities directly from BD2, the exemption would also not be available since BD3's failed transaction with BD2 was processed outside of the GSCC netting system.

Sell Order Fails

Example A



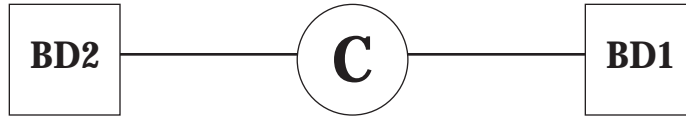
Customer ("C") has failed to deliver Government Securities that are the subject of a sell order (other than a short sale that was disclosed by C at or prior to the time it executed the trade with BD1) given by C to Broker-Dealer #1 ("BD1") for more than thirty (30) calendar days past the scheduled settlement date.

To close out this transaction, BD1 has the following options:

1. BD1 can accept the same or Comparable Securities from C. As in the case of Fully Paid Fails, BD1 and C must agree on the securities to be substituted. Again, this substitution would close out the original transaction between BD1 and C.
2. BD1 can arrange to sell the Government Securities back to C. In this case, C would be obligated to pay BD1 for any accrued interest and bear the burden of any change in market price or yield of the securities.
3. BD1 can buy-in the Government Securities owed to it by C, for the account and liability of C. The buy-in would be executed in the same manner as described in Example A under "Fully Paid Fails," above.

Note that short sales by Customers are exempt from the buy-in rule. However, the Customer must have identified the sell order as a short sale to the broker or dealer at or prior to the time the trade was executed, in order to avoid the application of these buy-in procedures.

Example B



Assume the same set of facts as set forth in Example A above, except that, in this example, assume that C has purchased the securities that are the subject of its sell order to BD1 from BD2, and that BD2 has failed to deliver these securities to C.

BD1 has the same options available to it as in Example A above. However, upon receiving a buy-in notice from BD1, C may either deliver the securities in question to BD1 to close out the transaction, or retransmit a buy-in notice to BD2. As in the case of Fully Paid Fails, C must retransmit the buy-in notice to BD2 within 24 hours of receiving it from BD1, and in any event at least two (2) business days prior to the proposed execution date of the buy-in, as set forth in the original notice from BD1.

In addition, BD1 has a fourth option available to it in this situation, which involves (i) effecting a cash settlement of its transaction with C (such settlement representing the difference, if any, between the amount owed by C to BD2, and the amount owed to C by BD1), and (ii) accepting from C an assignment of BD2's failure to deliver to C. Exercising this option has the effect of removing C from the chain of failed transactions, and, since there would no longer be a Customer Sell Order Fail involved, eliminating BD1's regulatory obligation to close out the transaction under the buy-in rule. Note, however, that the effect of the assignment will be to place BD1 in a "fail to receive" status directly with BD2, and thus subject to BD2's credit (instead of C's) until the transaction is ultimately settled or otherwise closed out. Thus, the assignment does not remove the underlying fail, but only eliminates C as a party "in the middle," and with it, BD1's obligation to close out the transaction in accordance with the buy-in rule.



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