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August 8th, 2014

Department of the Treasury
Bureau of the Fiscal Service
Government Securities Regulations Staff
401 14th Street, SW
Washington, DC 20227

**Re: Government Securities Act Regulations; Large Position Reporting Rules:
Docket No. Treas-DO-2014-0002**

Government Securities Regulations Staff:

The Securities Industry and Financial Markets Association¹(SIFMA) through its Government Operations Committee² (Committee) appreciates the opportunity to comment on the U.S. Department of the Treasury’s (Treasury) proposed amendments to Treasury’s rules for reporting large positions in certain Treasury securities (Proposed Rules). Treasury seeks, through the Proposed Rules, to improve the information available to Treasury through large position reporting (LPR) and simplify the reporting process for many entities subject to the LPR rules.³

Specifically, the LPR rules allow the Treasury to understand supply and demand dynamics in certain Treasury securities and to monitor the impact in the Treasury securities market of concentrations of positions in Treasury securities. The Proposed Rules would amend the large position reporting regime in the following general areas:

- 1) Request that central banks (including U.S. Federal Reserve Banks for their own account), foreign governments and international monetary authorities voluntarily submit large position reports (Report) when they meet the reporting thresholds;
- 2) Replace the current \$2 billion minimum reporting threshold with a percentage standard;
- 3) Replace the concept of a single “reportable position” with a requirement that reporting entities file a Report if any one of seven criteria is met;
- 4) Introduce the concept of “Tri-party Repurchase Agreement shells”;

¹ SIFMA brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA’s mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA).

² The Committee brings together operations and settlement professionals focused primarily on the Treasury securities markets from a broad array of SIFMA member firms.

³ 17 CFR 420.1 et seq..

- 5) Revise the general format for the reporting of positions and notably require different times at which positions must be reported and establish a two-column format for the reporting of gross “obligations to receive” and gross “obligations to deliver”;
- 6) Replace the current components of a reportable position;
- 7) Expand the components of a firm’s reportable position to include futures, options on futures and options;
- 8) Provide an option for reporting entities to identify the types of business they engage in and to identify their overall investment strategy with respect to the specified Treasury security; and
- 9) Consolidate relevant (and previously published) guidance.

The Committee broadly supports the Treasury’s goals of enhancing the information available to it to permit it to monitor activity in the Treasury securities market while minimizing the potential impact on the market’s efficiency and liquidity and the cost to taxpayers of funding the Federal debt. The market for U.S. Treasury securities remains the most liquid securities market in the world and all market participants share the goal of protecting this market in the most efficient manner possible.

The Committee, while supportive generally of the changes proposed, would like to raise the following comments and questions for Treasury’s consideration as this proposal moves forward.

Changes to the Large Position Report

Reporting Format

As noted in the Proposed Rules, the current LPR rules require entities to calculate their total reportable position as of the close of business on the report date. The Proposed Rules would alter this requirement and create a revised format that would require reporting entities to report certain information in connection with the specified Treasury security at the opening of the Federal Reserve System’s Fedwire® Securities Service (Fedwire)⁴ and at the close of Fedwire.

The Proposed Rules and accompanying explanatory text do not provide a clear reason for changing the requirement that firms report information reflective of close of business positions and it is not clear how a change to 3:30pm would enhance Treasury’s information mix in connection with its surveillance of the Treasury securities market. The new reporting times reflect, for many firms, intraday positions.

The Committee believes that this change to an intraday snapshot would not provide the Treasury with the most accurate information on Treasury positions. Activity-- funding, cash

⁴ As noted in the Proposed Rules, the Federal Reserve System’s Fedwire Securities Service is a book-entry securities transfer system that provides safekeeping, transfer, and delivery-versus-payment settlement services. The Fedwire Securities Service operates daily from 8:30 a.m. to 3:30 p.m. Eastern Time.

and settlement activity-- is ongoing in the Treasury market after the Fedwire close at 3:30pm and intraday positions may provide incomplete information on a firm's actual expected overall positioning. The Committee is concerned notably that member firms could not reconcile intraday positions to verify the accuracy of non-end-of-day positions. The Committee believes that a better approach, consistent with the current practice and better reflective of a firm's position, would be to report these positions as of the close of business on the relevant date (and, as discussed below, at the close of business on the prior day).

In addition to the changed times, the Proposed Rules would require reporting firms to report certain positions at two-points in time over the course of the trading day rather than the one currently required: at the opening of Fedwire and at the close of Fedwire. Current requirements are that the reporting entity's reports reflect a single point in time (ie, close of business on the reporting date). The Committee understands the informational benefits of comparing positions at two points in time and that Treasury would receive important information on a firm's behavior and activity in the market over the course of a trading day. It could, thus, develop a better sense of how particular trading positions and strategies are managed, developed and implemented. This information coupled with the new information on transactions executed before the reporting day but settling on the reporting day, provides valuable insights into the dynamics of the Treasury market.

However, we believe that the opening and closing of Fedwire as reporting times as proposed do not reflect, as noted above, actual formal openings and closings of the Treasury and funding markets and would create significant operational burdens and possible required manual processing that could undermine the overall quality of the information Treasury ultimately receives.

The Proposed Rules would require intraday tracking drawing on different systems and sources of information within (and, in some cases, outside) firms; for example, firms would need to combine information from both its execution and books and records systems while a close of business requirement allows firms to provide information that combines all the firm's tracking systems into its books and records. Also, with respect to intraday funding and trading positions, while monitored in real time, snapshots of such intraday positions are not saved and firms would need to look back and recreate these intraday positions through reviews and recreations from separate execution systems and books and records systems. Additionally, a significant amount of tri-party activity at the CUSIP level, will change intraday due to substitutions, maturities and new trade execution. The finality of this activity is not recorded until close of business. Trying to capture this type of intra-day activity and creating a positional view would be a manual process and may introduce the potential for errors, lack of consistency across reporting firms and require significant systems enhancements.

In addition, asset management firms that may be required to report do not have access to much of the required information. Rather, such information would have to be supplied by third parties outside of their control, namely the custodians for their institutional clients. We understand that custodians do not currently calculate or record such information on a real-time, intraday basis; in other words, such information is not currently available and it is not clear whether asset managers would be able to obtain this information for reporting purposes.

Many of our member firms maintain a global presence and trade U.S. Treasury securities throughout the 24 hour day and in a number of financial centers located in regions where trading takes place when US markets are closed. Generally, and reflective of the settlement mechanisms for Treasury securities in the United States, firms close their books for

the day in the early evening in New York. Under the current large position reporting regime, this is considered the “close of business” on the required reporting day and we believe represents the best snapshot of a firm’s global position at a given point in time. Trading in Treasuries begin with the opening of the market in Asia after the New York close of business and continue through to the close of business in New York on the following day. Indeed, even within the United States significant trading occurs in both the cash and funding markets prior to the open of the Fedwire.

The Committee acknowledges that Treasury believes its monitoring capability would be enhanced by not being limited to a single snapshot position and that the Proposed Rules would allow it to get a better understanding of reporting entities’ positions and how those positions are built in the specified Treasury security. The Committee suggests that, in order to limit the significant operational burden, potential material systems build and the potential for manual processing and inconsistent data, Treasury consider retaining its current close of business requirement for certain positions on the report date. In order to understand a firm’s activity leading up to the reporting time and consistent with the broader approach of taking two snapshots of positions, Treasury could require information from the close of business on the prior trading day to the reporting day (instead of the proposed intraday report at 8:30am). The subsequent end of day positions would then be reported as of the close of business on the reporting day so that Treasury would have the comparative data.

Tri-party Shells

The Proposed Rules introduces the term “tri-party repurchase agreement shell.” Part I(2) of the proposed revised Large Position Report form would require reporting entities to supply positions held in tri-party shells. Members request further guidance as to what positions are reportable under this item: for example, is this meant to capture gross positions in the particular CUSIP posted by the reporting entity as repo borrower only or are some other positions requested? In addition, if a firm holds the CUSIP that is the subject of a large position call in a trader’s inventory position and that security is funded in tri-party repo, how should that be reported in order to avoid counting the same security twice?

Futures and Options Contracts

Currently, the LPR rules require the reporting of positions in futures contracts that require the delivery of the specified Treasury security exclusively. The proposal would expand the components of a position to also include futures, options on futures, and options contracts for which the specified Treasury security is deliverable. The new components would include contracts that require delivery of the specified Treasury security as well as contracts that allow for the delivery of several securities.

We question the expansion of the LPR rules to include options and certain futures that allow for the delivery of several securities. Indeed, in its 1995 proposed rulemaking on LPR rules,⁵ Treasury determined that:

“Options and certain futures contracts (i.e., cash-settled or those requiring delivery of securities other than the specific security that is the focus of large position reporting) continue to be excluded because they do not provide the holder with either immediate control or an effective way to manipulate the price of a specific security. For options,

⁵ Federal Register, Vol.60, No. 242, December 18, 1995.

an entity would only gain control of the security at the time the position is exercised, at which time the security would become a component of a reportable position. Large positions in the excluded futures contracts are already reported to the Commodity Futures Trading Commission. Thus, this information will be available to the Department and other regulatory agencies, if needed, without imposing additional reporting requirements.”

We believe that the Department’s views in 1995 are still appropriate today (and arguably even more so given the Chicago Board of Trade’s adoption of position limits on Treasury futures in 2005). Should the Treasury proceed with this requirement, we believe the data collected could overstate current issue positions and not provide the Treasury with an accurate picture of the potential demand and supply characteristics of a particular security. This could potentially compromise the overall value and general usefulness of this information to the Treasury.

For instance, if we consider futures contracts that allow for the delivery of several securities, we note that it is very rare that the current issue Treasury security – the security most typically reported in LPRs – is delivered (on average, the current issue is delivered less than .01% of the time across maturities). This is fitting since the current issue is typically *not* the cheapest-to-deliver security, so it makes little economic sense to deliver the current issue security in the event the future allows for the delivery of several securities. As such, we believe the requirement to report futures that allow for the delivery of several securities could significantly overstate and obscure the holdings of recently-issued Treasuries and generally undermine the credibility and practicality of the data the Treasury collects.



Should the Treasury proceed with the expanded reporting requirement to include options and futures that allow for the delivery of several securities, we believe that the Treasury should incorporate an adjustment to the required reporting amount to reflect the probability that the particular security will be delivered (e.g., a delta adjustment for options) to ensure that the information reflects accurately the demand and supply for that particular security.

Finally, should Treasury proceed with the expanded reporting requirement, members request clarity as to whether OTC options are to be considered within the scope of this expanded collection. In addition, market participants expect to rely on published lists of cheapest- to- deliver securities provided by the futures exchanges or a vendor to determine which CUSIPS are in fact deliverable for futures and options. Additional guidance as to the use of such lists and the degree to which firms could limit the reportable positions to those CUSIPS that are within the top three cheapest-to-deliver.

Worked Examples

The Committee requests that the Treasury includes a “worked example” of the form with the publication of the final amended rule. In particular, it would be helpful to market participants to see the expected treatment of a hypothetical position that would include the new data elements.

Transition

In order to meet the requirements of the amended LPR regime, firms will be required to implement systems changes and new tracking protocols in order to be in a position to track and report in a timely manner. This will present a considerable burden for reporting entities and demand a significant use of technological resources. We request that the final revised rules (particularly if an intraday snapshot is required) include an appropriate transition period before making the changes effective to allow firms sufficient time to implement the necessary tracking/reporting changes.

SIFMA and the Committee sincerely appreciates this opportunity to comment upon the Proposed Rules and looks forward to working with the Treasury on any initiatives that would protect and enhance the overall liquidity and efficiency of the Treasury market. This liquidity and efficiency contributes materially to Treasury’s goal of issuing debt at the lowest cost to the taxpayer over time.

We would welcome the opportunity to answer any questions you might have or to provide further input that might be helpful. Please feel free to contact me directly at 212.313.1124 or rtoomey@sifma.org.

Very truly yours,



Robert B. Toomey
Managing Director and Associate General Counsel