

Government Securities Regulations Staff
Bureau of the Public Debt
999 E Street NW
Room 315
Washington, DC 20239-0001
(202) 691-3632

Re: 31 CFR Part 375 - Questions Regarding Proposed Rule

Twenty (20) questions follow, with respect to six (6) question areas, each pertaining to the proposed regulation published August 5, 1999 in the Federal Register. Note: The / character separates alternate, or synonymous, wording.

Question A: The Federal Reserve Bank has a procedure whereby they, regularly, purchase un-matured, long-dated, marketable Treasuries.

- 1: What procedures for these purchases does the Fed currently use and how much experience do they have with them?
- 2: Is their practice like that you have proposed?
- 3: If it is different, please explain how and why is it different?
- 4: If it is different, please explain why the Fed's procedure is not the first choice for the Treasury's ostensibly-similar activity?
- 5: Is it within the Treasury's authority, if it so wished, to use purchase procedures that are basically-the-same as the Fed's?
- 6: Will Treasury solicit the Federal Reserve's opinion of this proposed regulation and publish its response? If not, why not? If so, where/when will it be published?

Question B: Under the "II. Analysis" section of this proposal, you state, "...since the eligible securities already would be trading in the secondary market on a price basis."

- 7: Is it the Treasury's intention to never pay more for any redemption than the then currently quoted, secondary market price for the same security?
- 8: Is it the Treasury's expectation that it will receive Offers that are, in most instances, higher than the price for the same security in the secondary market?
- 9: Why can't the Treasury buy in the secondary market any/all the securities it may potentially wish to buy basis quoted prices and competitively-negotiated fees with Submitters?
- 10: What is the expected difference in cost to the Treasury from generically, "buying on the open market" versus this proposed approach of soliciting Submitters' price Offers?

Question C: 11: What is your evidence that, in the absence of having this Redemption Operation, the reduction (versus otherwise) in "volume" of "on-the-run" securities-and the reduction in "market liquidity" that that would cause-would not be offset (partially, substantially, or fully) by an increase in "market liquidity" from increased trading of (otherwise) "off-the-run" securities?

Question D: Under the "II. Analysis" section of this proposal, you state, "It is possible that, in a particular redemption operation, the calculations could result in our redeeming only one security."

- 12: Is it possible that no securities could be redeemed "in a particular operation"?
- 13: Is this language designed to indicate that, in any particular

operation, at least one-the lowest priced-will normally be accepted?

Question E: Submitters appear to have, within these procedures, an incentive to include in Offers securities that they do not actually control and/or securities that "their" Customer(s) may not eventually deliver. §375.31 portends to treat this contingency, but it does not provide any specific penalties. §375.31(b) equivocates ("...may require...") on damages, and only such in the narrow case of "late" deliveries of Offered amounts.

14: Have you considered including specific, unequivocal damages/penalties in the regulation for the relatively short list of possible faults/failures/infractions?

15: Why have you decided to not include such?

16: Please list the names of all entities which you know will currently qualify as Submitters. How many are there?

17: Is not there already such a close relationship between the Treasury/Fed, the N.Y. Fed, and the "...institutions...approved to conduct open market transactions with the Bank" that damages/penalties will be hard to impose when i) the regulation provides the Treasury with completely unrestrained latitude and volition, and ii) it is against the Treasury's interest in further reducing an already small group of eligible Submitters via a 'barring' action?

18: Will you propose specific penalty "guidelines" to the regulation, in which Submitters may then have certainty in appraising risk-reward for improper/imprudent activities? If so, please fully enumerate/describe.

Question F: The regulation makes no provision for reporting to the public the relative results of the redemption operation(s), nor does it contemplate a built-in, agreed-upon-up-front test for the actual efficacy of this new, never-been-tested-or-used-before procedure, during some initial test period.

19: What additions to the rule would you suggest, particularly to §375.21, so the public can tell, after the fact, how a specific redemption operation has performed, and "audit" how the total program has fared since inception (including measures/indications-by-name of Submitter non-compliance/non-performance), compared to some identifiable benchmark-like "the cost to buy the same securities at their then, currently-quoted, secondary-market prices"?

20: What would you propose to be an un-acceptable difference, or "delta", in the immediately-above, objective test, which would deem that this proposed procedure was not sufficiently efficient versus the several alternatives, including: other tendering procedures, and/or issuing fewer new securities of each maturity (" 'do nothing' option").

Richard W. Wallace
5003 Fort Sumner Drive
Bethesda, MD 20816-1942

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