June 3, 2013

Grace B. Vogel
Executive Vice President, Member Regulation
Financial Industry Regulatory Association
200 Liberty Street
New York, New York 10281

Dear Ms. Vogel:

Treasury is occasionally asked whether it will defer issuance of Treasury marketable securities purchased at auction until after the scheduled issue date. Treasury's policy regarding deferred issuance was first addressed in a written interpretive letter dated January 11, 1996. This letter supersedes that letter, and provides greater clarity regarding Treasury's current policy.

For purposes of this letter, the meaning of "customer" is the same as the definition of that term in Treasury's auction rules (Uniform Offering Circular, 31 CFR Part 356). Section 356.2 of the auction rules defines "customer" as "a bidder that directs a depository institution or dealer to submit or forward a bid for a specific amount of securities in a specific auction on the bidder's behalf. Only depository institutions or dealers may submit bids for customers directly to us, or forward them to another depository institution or dealer." A customer is evidenced by its name appearing on a customer list supplied by a submitter of auction bids.

Treasury's Policy

Treasury's policy continues to be that Treasury will not defer issuance of auction awards to bidders, regardless of whether they are customers or submit their bids directly. Auction customers, like all other bidders in Treasury auctions, make offers to purchase Treasury securities under the terms by which they are offered under the Uniform Offering Circular and the applicable offering announcement. Inherent in these terms is the requirement that successful bidders take delivery of the awarded securities on the issue date. Therefore, Treasury will not defer delivery of Treasury securities beyond the issue date. However, Treasury has no objection to the arrangement of an alternative settlement through a secondary market transaction with a dealer or depository institution (DI).

Prior to the Treasury Securities Auction

If an investor such as a client of a dealer or DI indicates, prior to the auction, that it wants to purchase Treasury securities with delivery to take place after the issue date, the dealer or DI may conduct a when-issued transaction for the desired delivery date. The investor's request may not be met by submitting a customer bid in the auction, since Treasury delivers securities purchased at auction only on the issue date.

To fulfill the when-issued transaction, the dealer or DI may obtain the Treasury securities from a secondary market trade or through an auction purchase. If the securities are obtained through a Treasury securities auction, the amount of the bid must be included in the dealer's or DI's proprietary bid. Accordingly, the investor would not be listed as a customer on the dealer's or DI's customer list. The amount of the auction purchase would be considered to be a purchase by the dealer or DI, not a purchase by the investor.

If the investor indicates before the auction that they wish to purchase the security at the auction clearing price but only accept delivery after the issue date, the dealer or DI should submit a customer bid in the auction. If the customer is awarded the security at the auction, then the submitter and customer may agree to enter into a transaction (e.g., a repurchase transaction) that accommodates the customer's desire to accept delivery at a date later than the issue date, provided that any such arrangement meets the requirements that: (1) on the issue date, the submitter will accept delivery of the securities on behalf of the customer, and (2) the submitter will remit payment to the Treasury on behalf of the customer upon delivery of the securities on the issue date. Importantly, the relevant securities records maintained by the dealer would reflect that the securities are owned by the customer as of the issue date.

After the Acceptance of an Auction Bid

Once a customer bid has been accepted into a Treasury securities auction, that bid may not be changed to a proprietary bid of the dealer or DI. Upon the acceptance of a customer bid, the customer becomes responsible for paying "the settlement amount for any securities awarded to it in the auction" (31 CFR § 356.16) and for taking delivery of the securities on the issue date as stated in the offering announcement. Ownership records of the submitting dealer or DI, such as customer accounts (17 CFR §§ 240.17a-3(a), 450.4(c), 404.2(a) or 404.4(a)), must reflect customer purchases as belonging to the customer, not the submitter or intermediary.

If, after the deadline for the submission of bids but prior to the issue date, a customer indicates to its submitter that it wishes to defer delivery of its auction award until after the issue date, the submitter and customer may agree to enter into a transaction that would accommodate the customer's request, provided that any such arrangement meets the requirements that: (1) on the issue date, the submitter will accept delivery of the securities on behalf of the customer, and (2) the submitter will remit payment to the Treasury on behalf of the customer upon delivery of the securities on the issue date. Even though an accommodating transaction may be affected, the relevant securities records maintained by the dealer or DI must reflect that the Treasury securities are owned by the customer as of the issue date. The submitter also has the option of refusing the customer's request to affect an accommodating transaction.

Regardless of whether a submitter enters into or refuses any such accommodating transaction in response to a customer's request to defer delivery of awarded securities under Treasury's auction rules, the submitter should notify the Federal Reserve Bank of New York of the course of action taken.

If there are any questions about this or any other matter concerning this interpretation, you can contact the Government Securities Regulations Staff at (202) 504-3632 for further guidance. This letter is being sent to the appropriate financial institution regulatory agencies, Federal Reserve Bank of New York, and the Securities Industry and Financial Markets Association (SIFMA).

Sincerely,
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Deputy Assistant Secretary (Federal Finance)

cc: Robert Toomey
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