

GREENWICH CAPITAL

August 16, 2001

VIA FEDERAL EXPRESS

Government Securities Regulations Staff
Bureau of the Public Debt
999 E Street N.W., Room 315
Washington, D.C. 20239

Re: Proposed Rulemaking on Modifications to the Calculation of the Net Long Position and the 35 Percent Award Limit in Marketable Treasury Securities Auctions.

Dear Ladies and Gentlemen:

Greenwich Capital Markets, Inc. ("Greenwich Capital")¹ welcomes this opportunity to comment on the Department of the Treasury's (the "Treasury") Advance Notice of Proposed Rulemaking with regard to the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds; Calculation of Net Long Position and 35 Percent Limit, 31 CFR Part 356, July 19, 2001 (the "Proposed Rulemaking"). Given the recent changes in the frequency and size of reopenings, we fully support the Treasury's effort to modify the net long position ("NLP") reporting and 35 percent limit requirements as applied to reopenings to ensure that the public policy goals of the auction process and the legitimate needs of the dealer community continue to be met.

We begin with the stated goal as expressed in the Proposed Rulemaking: "to ensure that participation in Treasury auctions remains both strong and broad, particularly in 'reopenings'." Proposed Rulemaking, at 1. Greenwich Capital supports this goal, and believes that Alternative #1 would be the simplest and most effective means to further it.

To assure broad participation in the Treasury market, the applicable auction rules should further two objectives: (1) a wide distribution of ownership of outstanding issues, and (2) diffuse bidding and awards in auctions. Accordingly, a rule that limited only total ownership of an issue after reopening (Alternative #3) or one that limited auction participation without regard to a firm's outstanding position (Alternative #4) would be

¹Greenwich Capital is a broker-dealer specializing in fixed income instruments. It transacts with sophisticated institutional customers in U.S. Treasury and agency securities, asset and mortgage-backed securities, and a variety of derivative instruments, and provides financing and securitization services in connection with a wide range of consumer and commercial assets. The firm has been a primary dealer since 1984 and is a member of the NASD. It is a wholly-owned subsidiary of The Royal Bank of Scotland Group, plc.

incomplete. As reflected in the passage cited from the September 1992 Federal Register Uniform Offering Circular proposal, the Treasury has historically expressed the view that only a rule which meets both objectives can adequately fulfill the Treasury's stated policy goals. Proposed Rulemaking, at 8.

Implementing a limit on auction bidding without consideration of positions in an outstanding issue, as contemplated by Alternative #4, would allow for the possibility that a single firm could acquire enough of the combined issue to impair the smooth and effective trading of that issue in the market. To take an extreme example, if a firm accumulated \$8 billion of the \$11 billion August 2011 note, under Alternative #4, that firm would still be allowed to acquire another \$3.15 billion in the prospective \$9 billion November reopening, limiting the supply available to all other investors and dealers to \$5.85 billion at auction and \$8.85 billion in total. In contrast, under Alternative #1, there would be a total of \$12 billion available to the other investors and dealers after the issue is reopened. We also think it possible that Alternative #4 could create incentives for dealers to acquire large positions in the more liquid WI market and roll those positions into the outstanding issue just prior to the reopening, needlessly increasing the volatility in the WI market. Ultimately, we believe Alternative #1 would better prevent squeezes from developing, thereby promoting more liquid and orderly trading and ultimately keeping Treasury's borrowing costs to a minimum.

Conversely, allowing bidders to bid for up to 35% of the combined size of the issue (Alternative #3) would in theory allow a single firm to garner most or in some cases all of the competitive award at a reopening. An important part of the responsibilities entailed in performing the primary dealership function is an obligation to participate in Treasury auctions. However, participation in the auction process is an inherently risky activity for dealers. To promote broad participation in auctions, auction rules should minimize the likelihood that dealers who bid in good faith will fail to obtain the securities that they need and expect to get and then find themselves unable to obtain them in the secondary market. Allowing a single firm to win most or all of an auction would lead to more disorderly auctions and would make dealers less likely to set up aggressively. The end result would be thinner participation and higher borrowing costs for the Treasury. As a result, Alternative #3, in Greenwich Capital's view, would be the worst possible choice.

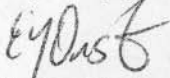
Greenwich Capital believes that Alternative #6, which would retain the current rules in their existing form, is also not advisable. We believe the auction rules as applied to reopenings do need to be changed to promote a reasonable dispersion of auction awards in reopened issues. The current rule is unnecessarily restrictive and was formulated in an era when reopenings were rare and generally of equal size to the original issue auctions. Under the current regime, which includes regular, planned reopenings, there is a genuine need for a new rule that reflects the possibility and indeed likelihood of reopenings that are significantly smaller than the original auction (such as the August reopening of the February 2031 bond). Not only does the current rule unnecessarily restrict bidding in some cases, but it also limits the flexibility of the Treasury in setting the size of reopenings. Thus, Greenwich Capital does not support Alternative #6.

Finally, Greenwich Capital believes Alternatives #2 and #5, both of which would change the rules for all auctions and not just reopenings, are undesirable. We have no fundamental objection to either the 35% level for auction limits or to the NLP reporting requirement. The 35% limit, while arbitrary, has by all indications served the Treasury and the marketplace reasonably well, and we do not believe that current market developments point to the need to make the limit higher or lower. Similarly, firms have for some time now had in place procedures and processes to comply with the NLP reporting requirement, and we do not believe there are any current market developments that warrant reconsideration of the benefit/burden analysis associated with this requirement. Alternatives #2 and #5 would, in our view, introduce unnecessary complications and require firms to make significant adjustments from an operational as well as trading standpoint, all without addressing the specific problem associated with the application of the current rules to reopenings.

In sum, Greenwich Capital supports Alternative #1 as the best proposal to promote broad participation in reopenings while ensuring wide ownership of securities, before and after reopenings. Each of the other Alternatives would, in our view, be less successful in furthering one or both of these goals.

We again express our appreciation for the opportunity to comment on the Proposed Rulemaking. If you should have any questions about this letter, please contact the undersigned at (203) 625-2818.

Very truly yours,



Ed Orenstein

Co-Head of Liquid Products Group

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