beneficial owner must file its report within 10 business days with the SEC, the issuer and the exchange on which the securities are traded.

In addition, the FRBNY requires primary dealers in Treasury securities to submit several position reports on a regular basis. These include weekly reports of positions (with separate reporting for each when-issued and recently issued security), cumulative transactions, and financing transactions (repos, reverse repos, securities borrowed and lent, collateralized loans and matched-book transactions) and a daily report of when-issued transactions.

## II. Purposes, Objectives and Features of Treasury Large Position Rules

The Treasury actively supported large position reporting during the legislative process that resulted in the passage of the GSAA and is committed to implementation of rules that make sense from both a regulatory and market efficiency perspective. As the agency of the Federal government most concerned with minimizing the interest cost on the public debt, Treasury believes that the U.S. is best served by an efficient and liquid market for Treasury securities that is not overburdened with regulation but, at the same time, is not viewed as being subject to manipulation.

Large position rulemaking is a complex and important task. For example, defining a "reporting entity" (i.e., persons holding, maintaining or controlling large positions) or determining what constitutes a position in a Treasury security will be very difficult given the many issues that need to be considered. Although everyone would likely agree that a position would include securities owned by and in the possession or control of the reporting entity, there are many views as to whether, and if so how, repos, reverse repos. when-issued trades. futures. forwards, options, bonds borrowed and fails should be included in a position. Determining how to treat repos and reverse repos is likely to be particularly complex, given the potential for duplicate reporting of the same security in both counterparties' positions, and the difficulty of defining control for different types of repo arrangements, such as tri-party repos.

Treasury plans to take a measured approach in exercising its large position reporting authority, including the related recordkeeping requirements, and to actively involve market participants in the rulemaking process. Treasury will take into consideration the costs to market participants, the potential impact on the efficiency and liquidity of the market for Treasury securities and any implications on the Federal government's cost of borrowing.

The principal purpose of large position reporting is to enable Treasury and the other regulators to better understand the possible reasons for apparent significant price distortions in to-be-issued and recently issued Treasury securities. This information would enable policymakers to make better decisions concerning any possible government actions that might be taken in response to apparent price anomalies. The ability to identify concentrations of ownership and to obtain information on large positions being held or controlled in to-be-issued or recently issued Treasury securities is important in enabling regulators responsible for market surveillance and enforcement to understand the causes of market shortages.

Another important goal of large position reporting is to assist securities regulators in conducting market surveillance. The enactment of this authority was largely based on a belief that the government needs surveillance tools, similar to those employed in other financial markets, in order to monitor developments in the Treasury securities market and to better police against fraud and manipulation. Information about large positions may be critical to the SEC in carrying out its enforcement duties under the federal securities laws. Large position reporting will also enable regulators to monitor the positions of major market participants other than government securities brokers and dealers (e.g., large investment funds that are largely unregulated, custodians, and foreign and domestic customers) under certain circumstances.

Large position records and reports could also provide regulatory agencies early warning of potential market problems. If a problem develops, such records and reports could assist regulators in, and reduce the cost of, any investigation.

It is important to recognize that large position reporting merely creates a requirement to maintain records and report information about such positions. Large positions are not inherently harmful and there is no presumption of manipulative or illegal intent solely because a position is large enough to be subject to reporting rules that may be prescribed by the Treasury. Additionally, there is no intention of establishing trading or position limits as part of any rulemaking. Nor is the Treasury planning to institute a recordkeeping and reporting system that would require the identification of large traders or the reporting of large trades.

The statutory provision regarding the minimum size of a position subject to reporting is meant to ensure that the minimum size will be large enough to require reports only of positions that could be used to significantly affect the market for a particular security. It is Treasury's current view that the size of a reportable position would most likely be in the billions of dollars and much larger than the reporting thresholds in the futures market. As a result, it is expected that very few entities would likely have to file large position reports.

The GSAA specifically provides that the Treasury shall not be compelled to disclose publicly any information required to be kept or reported for large position reporting. In particular, such information is exempt from disclosure pursuant to Exemption 3 of the Freedom of Information Act.<sup>19</sup>

The Treasury contemplates granting exemptions from the large position recordkeeping and reporting rules for foreign central bank, foreign government and official international financial institution holdings at the FRBNY.

## III. Specific Considerations and Questions

The Treasury welcomes comments, reactions and suggestions on the above issues. Additionally, advice and recommendations regarding an approach and structure for a large position recordkeeping and reporting system that meet the purposes, objectives and features addressed above are invited from all interested persons. Specifically, in developing such recommendations, suggestions and advice, commenters are requested to consider the following questions.

A. Reporting Entities—Persons holding, maintaining or controlling large positions, as yet to be defined, are reporting entities. The questions in this section are directed toward determining which entities should be affected by the regulations. In particular, the questions focus on how affiliated entities are to be treated, what entities should be exempt and whether classes of entities may warrant special treatment.

1. How should we define a "reporting entity"? Should it be similar to the definition of a bidder in Treasury's rules governing the sale and issue of Treasury bills, notes and bonds (i.e., Uniform Offering Circular at 31 CFR Part 356)?

2. What aggregation rules should apply for affiliated entities? Assuming there are aggregation rules, should there be an exception for affiliates that cannot or do not share information? For example, how should different funds

<sup>&</sup>lt;sup>19</sup> 5 U.S.C. 552.