

## Introduction

U.S. Government Securities are debt obligations that are incurred or guaranteed by the U.S. Government, government agencies or government-related organizations. Another form of U.S. Government securities, such as federal agency securities, represents pools of debt incurred by U.S. citizens that are guaranteed by government agencies and resold to investors. The two main types of U.S. Government securities are *Treasuries* and *Agency securities*. Therefore, the following procedures address certain U.S. Government securities as they relate to Treasuries and Agency securities in accordance with the *Government Securities Act of 1986* and *Section 15C* under the *Securities Exchange Act of 1934*, as well as other relevant rules and regulations that apply to government securities transactions.

## 15.01 Designation of Supervisor

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### Qualification Requirements

As of April 1, 1998, a registered representative must pass a qualification examination in order to sell or trade government securities. This may be either the Series 7 Examination or the Series 72 Examination. The Government Securities Limited Representative Qualification Examination (Series 72) has been developed to qualify persons seeking registration with FINRA. Registered representatives in this limited category of registration are permitted to transact a member's business in Treasury securities, Agency securities, and Agency mortgage-backed securities. This category, by itself, does not allow registered representatives to transact a member's business in options on government securities. Candidates seeking to do transactions in this latter product also must meet additional qualification and registration standards as described below.

### Grandfather Provision

FINRA Regulation adopted a "grandfather" provision for certain government securities representatives. Persons who were registered with FINRA as government securities representatives and/or government securities principals on or before April 1, 1996 (two years prior to the effective date of the rule) will be grandfathered and may register as government securities representatives without having to take an examination. This grandfather provision assumes that the representative is not currently subject to a statutory disqualification as defined in *Section 3(a)(39) of the 1934 Act* or has not been subject to a suspension or fine of \$5,000 or more imposed by a securities or commodities regulator in the 10 years before the effective date of the rule.

### Government Securities Principal

The Firm shall designate a government securities principal who is engaged in the management or supervision of the Firm's government securities business to include the following:

- Underwriting, trading or sales of government securities;
- Financial advisory or consultant services for issuers in connection with the issuance of government securities;
- Research or investment advice, other than general economic information or advice, with respect to government securities; or
- Responsible for supervision of the processing and clearance activities with respect to government securities or the maintenance of records involving any of the government securities activities.

## Notification of Principal Status

The Firm will promptly notify FINRA regarding any individual not previously registered with the Firm who shall be employed as a principal on the form U-4 accompanied by the applicable fees. ►►

### Implementation Strategy

The designated principal will ensure that all registered representatives maintain all required and appropriate licensing for engaging in U.S. Government securities transactions.

## 15.02 Description of U.S. Government Securities/Government-Sponsored Enterprises (GSEs)

### Treasury Securities

There are three types of Treasury securities that are available to the public: Treasury bills (T-bills); Treasury notes (T-notes); and Treasury bonds (T-bonds). The following information is a brief description of the three types of Treasuries:

#### Treasury Bills (T-bills)

Treasury bills, or commonly called T-bills, are primarily considered *short-term* investments with maturity dates of three months (thirteen weeks), six months (twenty-six weeks), or one year (fifty-two weeks). New Treasury bills are issued at a discount from their face value and are redeemed at their full face value (or par value) at maturity. It is important to note that interest on Treasury bills is exempt from state and local taxes. This type of Treasury security is issued in increments of \$1,000. Because Treasury bills are issued at a discount from face value, they do not have a stated interest rate and therefore do not pay an annual interest.

#### Treasury Notes (T-notes)

Treasury notes, or commonly called T-notes, are usually considered *intermediate-term* investments with maturity dates of two, three, five, and ten years. New Treasury notes typically have fixed interest rates that are based on the note's coupon rate as specified on the note and are calculated based on a 365-day year. All interest on Treasury notes is paid on a semi-annual basis and is exempt from state and local taxes. For the purposes of issuing Treasury notes to the public, the Government typically offers two-year Treasury notes on a monthly basis, and five and ten-year notes on a quarterly basis. As with Treasury bills, Treasury notes are issued in increments of \$1,000. It is also important to note that Treasury Notes are not callable.

#### Treasury Bonds (T-bonds)

Treasury bonds, or commonly called T-bonds, are usually considered *long-term* investments with maturity dates of ten to thirty years. T-bills typically have a fixed rate of interest that is paid on a semi-annual basis. All interest earned from T-bills is exempt from state and local taxes. As with Treasury bills, Treasury notes are issued in increments of \$1,000. Similar to T-notes, T-bonds are not callable.

### Government Agency Securities (Federally Sponsored)

There are four main types of *federally sponsored* Government Agency Securities: the Federal National Mortgage Association (FNMA); the Federal Home Loan Mortgage Corporation (FHLMC); and the Federal Farm Credit System. It is important to note that although these types of agency securities are sponsored

by the U.S. Government, they are not are not backed by the full faith and credit of the U.S. Government. The following is a brief description of the various types of federally sponsored agency securities:

### **Federal National Mortgage Association (FNMA or Fannie Mae)**

The Federal National Mortgage Corporation (FNMA) is a public corporation with the purpose of providing residential mortgage capital. In order to raise this type of capital, FNMA focuses on buying residential mortgages from lenders such as banks and savings and loan associations.

### **Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)**

The Federal Home Loan Mortgage Corporation (FHLMC) is a publicly chartered agency that was created to provide residential mortgage capital. In order to provide this capital, the FHLMC buys residential mortgages from lenders, packages and resells them in the open market in the form mortgage-backed, pass-through certificates. All income earned from securities issued by the FHLMC are taxed at the federal, state, and local level.

### **Student Loan Marketing Association (SLMA or Sallie Mae)**

The Student Loan Marketing Association (SLMA) is a publicly traded stock corporation that provides financing to student state loan agencies by guaranteeing student loans that are traded in the secondary market. The SLMA was created to increase the availability of education-based loans to college and university students under the Guaranteed Student Loan Program (GSLP). All income earned from securities issued by the SLMA are taxed at the federal, but are exempt from the state and local level.

### **Federal Farm Credit System**

The Federal Farm Credit System was established to provide general credit services to farmers and farm-related businesses through a network of Farm Credit Districts. In order to provide these credit services, the Federal Farm Credit System sells short-term (less than one year) notes in increments of \$50,000 on a discounted basis, and also issues Federal Farm Credit System Consolidate Systemwide Bonds in increments of \$5,000. All bonds of this type are issued with six and nine-month maturity dates.

## **Federal Agency Securities**

There are two main types of federal agency securities: the Government National Mortgage Association (GNMA) and the Export-Import Bank (EXIM Bank). These two types of federal agency securities are different from the federally sponsored agency securities in that they are directly backed by the full faith and credit of the U.S. Government. The following is a brief description of the two main types of federal agency securities.

### **Government National Mortgage Association (GNMA or Ginnie Mae)**

Similar to the FNMA, the Government National Mortgage Association (GNMA) is another organization with the purpose of providing residential mortgage capital. In order to provide this capital, the GNMA buys, packages, and resells mortgages in the form of mortgage-backed securities. However, one of the distinguishing factors with the GNMA is that they are backed by the full faith and credit of the U.S. Government.

### **Export/Import Bank (EXIM Bank)**

The Export/Import Bank (EXIM Bank) was created for the purpose of encouraging trade between the U.S. and foreign countries. Similar to the GNMA, these particular federal agency securities

are backed by the full faith and credit of the U.S. Government. Additionally, all interest income on EXIM Bank securities are subject to federal, state, and local taxation.

## **15.03** Government-Sponsored Enterprise (GSE) Distributions

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### **Order Tickets**

The government securities representative will complete an order ticket for each processed GSE trade. Tickets will include the date, time the order was entered, and when the order was executed. The designated principal is responsible to review a reasonable sample of the order documentation on a daily basis and evidence such a review by initialing and dating the bottom of each order document.

### **Selling Group**

The Firm will comply with the terms of the selling group agreement when it participates in a selling group. This notation in the Firm's written supervisory procedures does not indicate the Firm is authorized to participate in any selling groups.

### **Distribution Reports**

The Firm will prepare a distribution report identifying the allocation of orders and purchasers.

### **Delivery of Offering Materials**

The Firm's procedures regarding delivery of offering materials will conform to the Guidelines on Delivery of Offering Materials Relating to Securities of Government-Sponsored Enterprise as developed by GSEs and the Bond Market Association.

#### **Electronic Delivery for GSE Offering Materials**

The Securities and Exchange Commission's Interpretive Release (No. 33-7233) of October 1995, which stated that prospectus and other information distributed by electronic means would satisfy the delivery or transmission requirements of the federal securities laws "if such distribution results in the delivery to the intended recipients of substantially equivalent information as these recipients would have had if the information were delivered to them in paper form." The electronic delivery of offering materials that meets these standards shall be deemed to satisfy GSE offering material requirements.

**Notice-** delivery of computer disk, CD-ROM, audio tape, videotape or e-mail all would by itself constitute sufficient notice to a recipient of the availability of an electronic document, while additional notice would be necessary in the case of delivery via the Internet.

**Access-** use of a particular medium should not be so burdensome that intended recipients cannot effectively access the information. In addition, recipients must have the opportunity to retain the information, or have ongoing access to such information to match the ability of those who receive paper documents.

**Revocation of consent-** a paper version of the document should be supplied to a person if he/she revokes consent to receive it electronically, or upon request.

**Evidence of delivery-** issuers and dealers should have reason to believe the electronically delivered material was received. Proper evidence of receipt would include (1) obtaining informed consent, coupled with appropriate notice and access; (2) electronic mail return receipt or confirmation that the recipient downloaded or printed the information; (3) certain facsimile methods; (4) access

by hyperlinking to a required document; and (5) the use of forms or other material that is available only by accessing the information.

### **Prospectuses**

When the Firm participates in a distribution (whether as underwriter or selling group member), the Firm will request, prior to settlement date, prospectuses from the issuer or principal dealer in an amount sufficient to provide the purchasers or others who request prospectuses. Prospectuses will be provided with the customer's confirmation. If prospectuses are not included with confirmations, confirmations will bear the notation: "Offering documentation will follow."

For any new issue of a Real Estate Mortgage Investment Conduit (REMIC), whether or not the Firm participates in the underwriting, the Firm will provide purchasers with prospectuses for the period up to 120 days after settlement. This includes secondary market transaction in the new issue for the 120-day period. The designated supervisor will retain a record of to whom and what date the prospectuses were sent.

### **Distribution Periods**

Distribution periods differ depending on the security involved. The designated principal will be responsible for reviewing all applicable guidelines and ensuring that the registered representatives adhere to the applicable distribution periods.

### **No Assurance of Execution**

There is no assurance that an order submitted to purchase GSE securities in distribution will be executed. At the time orders are entered, customers must be advised, if they are not already familiar with GSE distribution orders, that there is no assurance that their order will be executed. Registered representatives will evidence such disclosures by filing out a "No Assurance of Execution Form" and submitting it in the designated principal. The designated principal will review all forms submitted and evidence such review and approval by initialing and dating the bottom of each document

### **Master Agreements**

When acting as underwriter, the Firm will require other dealers with whom the Firm effects transactions in GSE securities during distribution periods to execute a Master Agreement whereby the dealer agrees to provide offering documents in accordance with the Guidelines. The designated supervisor is responsible for establishing procedures for identifying the dealers for whom the Master Agreement is required and maintain copies of the signed agreement.

### **Single Class TBAs (Mortgage-Backed Securities)**

Confirmations that are sent during the distribution period for single class TBAs should include a notation stating that additional pool information is available to each purchaser by directly telephoning the issuer.

## **15.04 General GSE Trading Activities**

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### **Mark-ups and mark-downs**

The Firm may add a markup or markdown for U.S. Government securities transactions conducted at the Firm. The designated principal of the Firm must review to ensure fair and equitable markups or markdowns on all government securities trades by properly licensed and registered

representatives. The Firm allows a maximum mark-up/down of 2 points on U.S. Government securities transactions assuming this amount covers the minimum ticket charge. Any potential indicators of excessive markups or markdowns will be immediately investigated and corrected by the designated principal. The following is a summary of the relevant factors when determining markup/downs:

- Total dollar amount of the transaction;
- Expense involved in effecting the transaction
- The best judgment of the Firm as to the fair market value at the time of the transaction;
- Price or yield of the security
- Nature of the Firm's business;
- Availability of the security;
- Maturity of the security;
- Resulting yield, as compared to the yield on other securities of comparable quality, maturity, coupon rate, and block size then available in the market;
- Any other relevant facts at time of execution. ►►

#### **Implementation Strategy**

On a regular basis, the designated principal will be responsible for reviewing trade blotters to ensure that mark-ups and markdowns are within the Firm's 2 point maximum guideline (assuming amount covers minimum ticket charge). Records will be properly documented as evidence of review.

#### **Commissions for Agency Transactions**

The designated principal of the Firm must review for excessive commissions for all trades by registered representatives. The Firm allows a maximum commission of 2 percent on U.S. Government securities transactions assuming this amount covers the minimum ticket charge. The following is a summary of relevant factors for determining excessive markups and markdowns:

- Expense of processing the order;
- Value-added services provided by the Firm;
- Amount of other remunerations received by the Firm;
- Any other relevant factors at the time of execution. ►►

#### **Implementation Strategy**

On a regular basis, the designated principal will be responsible for reviewing trade blotters to ensure that all applicable commissions are within the Firm's 2 percent maximum guideline (assuming amount covers minimum ticket charge). Records will be properly documented as evidence of review.

## **15.05 Book-Entry Treasury Bills, Notes, and Bonds**

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### **Book-entry securities and systems**

U.S. Treasury Securities are to be held and transferred in either of the two book-entry securities systems: TRADES or TREASURY DIRECT. Treasury securities are maintained and transferred, to the extent authorized in 31 CFR 357, in these two book-entry systems at their par amount (e.g., for inflation-indexed

securities, adjustments for inflation will not be included in this amount). Treasury securities may be transferred from one system to the other in accordance with U.S. Treasury regulations governing book-entry Treasury bills, notes, and bonds.

### **Treasury/Reserve Automated Debt Entry System (TRADES)**

TRADES is established, maintained and operated by the Federal Reserve Banks acting as fiscal agents of the United States. The Federal Reserve Banks maintain book-entry accounts for themselves, depository institutions, and other authorized entities, such as government and international agencies and foreign central banks. In their accounts, depository institutions maintain securities held for their own account and for the accounts of others, including other depository institutions and dealers, which may, in turn, maintain accounts for others. For accounts maintained in TRADES, Treasury discharges its payment obligations when payment is credited to the applicable account maintained at a Federal Reserve Bank or payment is made in accordance with the instructions of the person or entity maintaining such account.

### **Treasury Direct**

Treasury Direct is a system in which the book-entry securities of account holders are identified and maintained directly on the records of the Bureau of the Public Debt, Department of the Treasury. In Treasury Direct, the U.S. Treasury discharges its payment obligations when payment is made to a depository institution for credit to the account specified by the owner of the security, or when payment is made in accordance with the instructions of the owner of the security.

## **Description of Securities**

U.S. Treasury securities are offered exclusively in book-entry form and are direct obligations of the United States. The securities are subject to the terms and conditions set forth in this section as well as the regulations governing book-entry Treasury bills, notes, and bonds, and the offering announcements, all to the extent applicable.

- Treasury bills are issued at a discount, are redeemed at their par amount at maturity, and have maturities of not more than one year;
- Treasury notes or Treasury fixed-principal notes are issued with a stated rate of interest to be applied to the paramount, have interest payable semiannually, and are redeemed at their par amount at maturity. They are sold at discount, par, or premium, depending upon the auction results. They have maturities of at least one year, but not more than ten (10) years (*the term "fixed-principal" is used in this part to distinguish such securities from "inflation-indexed" securities. Fixed-principal notes and fixed-principal bonds are referred to as "notes" and "bonds" in official Treasury publications, such as offering announcements and auction results press releases, as well as in auction systems*);
- Treasury inflation-indexed notes are issued with a stated rate of interest to be applied to the inflation-adjusted principal on each interest payment date, have interest payable semiannually, and are redeemed at maturity at their inflation-adjusted principal, or at their par amount, whichever is greater. They are sold at discount, par, or premium, depending upon the auction results. They have maturities of at least one year, but not more than ten (10) years;
- Treasury bonds or Treasury fixed-principal bonds are issued with a stated rate of interest to be applied to the par amount, have interest payable semiannually, and are redeemed at their par amount at maturity. They are sold at discount, par, or premium, depending upon the auction results. They typically have maturities of more than ten (10) years;

- Treasury inflation-indexed bonds are issued with a stated rate of interest to be applied to the inflation-adjusted principal on each interest payment date, have interest payable semiannually, and are redeemed at maturity at their inflation-adjusted principal, or at their par amount, whichever is greater. They are sold at discount, par, or premium, depending upon the auction results. They typically have maturities of more than ten years.

## **Submission of Bids**

Bids may be submitted directly to a Federal Reserve Bank that is authorized to accept tenders or to the Bureau of the Public Debt, Washington, DC, or through a depository institution or dealer, to submit bids on behalf of customers. Competitive and noncompetitive bids must be received prior to the respective closing times specified in the offering announcement. All bids for securities are binding on the bidder after the closing time specified in the offering announcement.

If the awarded securities are to be issued in TRADES, a submitter must have on file at a Federal Reserve Bank a certificate listing those persons who are authorized to submit tenders on its behalf. The certificate must be duly executed by an authorized person on behalf of the submitter. A tender will not be recognized if the person submitting the tender is not listed on the certificate. The submitter is responsible for any tenders submitted for the submitter by persons who are designated on the certificate as authorized to submit tenders on its behalf

### **Submission of paper tenders**

Paper tenders should be on preprinted forms provided by the Federal Reserve Bank to which the tender is submitted or preprinted forms of the Bureau of the Public Debt, and should provide the information requested on the form. Paper tenders in any other form or incomplete tenders may be accepted or rejected at the option of the Treasury Department. For competitive bids, if securities are to be delivered to more than one account, a separate paper tender must be submitted for each delivery instruction specified.

### **Submission of tenders by computer**

Competitive and noncompetitive tenders may be submitted by computer transmission to a Federal Reserve Bank. Tenders may be submitted by computer only by those submitters that have previously arranged with a Federal Reserve Bank for such submission.

For computer tenders, the submitter must comply with computer communications and electronic access standards and requirements for Treasury auctions. Incomplete tenders or transmissions that do not comply with such standards and requirements may be accepted or rejected at the option of the Department.

## **Noncompetitive and competitive bidding**

All bids, including bids for re-openings, must state the par amount of securities bid for and must equal or exceed the minimum bid amount stated in the offering announcement. Bids that exceed the minimum bid amount must be in the multiple stated in the offering announcement.

### **Non-competitive**

A bidder bidding competitively for its own account may not bid non-competitively for its own account in the same auction. A request for reinvestment of securities maturing in TREASURY DIRECT is a noncompetitive bid.

### **Maximum bid**



A bidder may not bid non-competitively for more than \$1 million in a bill auction or more than \$5 million in a note or bond auction. The maximum bid limitation does not apply to bidders who are bidding solely through TREASURY DIRECT.

### **Additional restrictions**

Between the date of the offering announcement and the time of the official announcement by the Department of the auction results, a noncompetitive bidder may not hold, at any time, a position for its own account in when-issued trading or in futures or forward contracts in the security being auctioned or enter into any agreement to purchase or sell or otherwise dispose of the securities it is acquiring in the auction.

### **Competitive**

A bidder bidding non-competitively for its own account may not bid competitively for its own account in the same auction.

### **Bid Format**

For all Treasury bills except cash management bills, a competitive bid must show the discount rate bid, expressed with three decimals in .005 percent increments. The third decimal must be either a zero or a five, e.g., 5.320 or 5.325. Fractions may not be used. For cash management bills, a competitive bid must show the discount rate bid, expressed with two decimals in .01 percent increments (e.g., 5.14. Fractions may not be used).

For Treasury fixed-principal securities, a competitive bid must show the yield bid, expressed with three decimals (e.g., 4.170. Fractions may not be used).

For Treasury inflation-indexed securities, a competitive bid must show the real yield bid, expressed with three decimals (e.g., 3.070. Fractions may not be used).

For a maximum recognized bid, there is no limitation on the maximum dollar amount that a bidder may bid for competitively, either at one yield or discount rate, or at different yields or discount rates. However, a competitive bid by a bidder at a single yield or discount rate that exceeds 35% of the public offering amount will be reduced to that amount. For example, if the public offering is \$10 billion, the maximum bid amount that will be recognized at any one yield or discount rate from any bidder is \$3.5 billion. (See Sec. 356.22 for award limitations.)

## **Certifications**

### **Submitters**

By submitting a tender for a security, a submitter is deemed to have certified that it is in compliance with this part and the offering announcement governing the sale and issue of the security. Further, the submitter is deemed to have certified that the information provided on the tender with regard to bids for its own account is accurate and complete, and that the information provided on the tender with regard to bids for customers accurately and completely reflects information provided to it by its customers or intermediaries. Prior to submitting a computer tender, a submitter must have on file a written certification that the submitter is certifying, each time it submits a computer tender, that it is in compliance with this part and the applicable offering announcement. The certification must be signed and dated by an authorized person on behalf of

the submitter, be filed with the Federal Reserve Bank to which the computer tender is submitted, and be renewed at least annually.

### **Intermediaries**

By forwarding a bid, an intermediary is deemed to have certified that it is in compliance with this part and the offering announcement governing the sale and issue of the security. Further, the intermediary is deemed to have certified that the information provided to a submitter or other intermediary with regard to bids for its own account is accurate and complete, and that the information provided to a submitter or other intermediary with regard to bids for customers accurately and completely reflects information provided to it by its customers or intermediaries.

### **Responsibility for payment**

A bidder agrees to pay the settlement amount for any securities awarded to it in the auction. In addition, certain payments or provisions for payment are required at the time a tender is submitted. The specific requirements, outlined in this section, depend on whether awarded securities will be delivered in TREASURY DIRECT or TRADES.

#### **TREASURY DIRECT**

For securities to be held in TREASURY DIRECT, payment of the par amount and announced accrued interest and/or inflation adjustment, if any, must be submitted with the tender unless other provisions have been made, such as payment by an authorized electronic means providing for immediately available funds or by charge to the funds account of a depository institution.

#### **TRADES**

For securities to be held in TRADES, payment of the par amount and announced accrued interest and/or inflation adjustment, if any, must be submitted with the tender unless other provisions have been made, such as payment by an authorized electronic means providing for immediately available funds or by charge to the funds account of a depository institution.

### **Net Long Positions**

#### **Reporting net long positions**

When bidding competitively, a bidder must report the amount of its net long position when the total of all of its bids in an auction plus the bidder's net long position in the security being auctioned equals or exceeds the net long position reporting threshold amount. The net long position reporting threshold amount for any particular security will be as stated in the offering announcement for that security. That amount will be \$1 billion for bills, and \$2 billion for notes and bonds, unless otherwise stated in the offering announcement. If the bidder either has no position or has a net short position and the total of all of its bids equals or exceeds the net long position reporting threshold amount a net long position of zero must be reported. In cases where a bidder that is required to report the amount of its net long position has more than one bid, the bidder's total net long position should be reported in connection with only one bid. A bidder that is a customer must report its reportable net long position through only one depository institution or dealer.

#### **Determination of net long position**

The net long position must be determined as of the designated reporting time, which is one-half hour prior to the closing time for receipt of competitive bids. A net long position includes the par amount of (i) holdings of outstanding securities with the same CUSIP number as the security

being auctioned; (ii) positions in the security being auctioned; and (iii) holdings of STRIPS principal components of the security being auctioned, including when-issued trading positions of such principal components.

### **Submitting Bids for Customers**

Depository institutions and dealers may submit bids for their own account, for their customers, or for customers of intermediaries, subject to the requirements set out in paragraphs (a), (b), and (c) of this section. Others are permitted to submit bids only for their own account.

#### **Payment**

By submitting a bid on behalf of its customer or a customer of any intermediary, a submitter agrees to remit payment for securities awarded as a result of such bid.

#### **Customer lists**

A customer list must be submitted or be available, as provided in paragraphs (b) (1), (2) and (3), whenever bids for more than one customer are included on the same tender. The customer list must include direct customers of the submitter as well as customers of any intermediaries who are forwarding customer bids to the submitter.

#### **Net long position of customers**

A submitter or intermediary, when submitting or forwarding a competitive bid of \$100 million or more for its customer, must inform that customer of the customer's net long position reporting obligation.

### **STRIPS**

A note or bond may be designated in the offering announcement as eligible for the STRIPS program. At the option of the holder, and generally at any time from its issue date until its call or maturity, any such security may be "stripped," i.e., divided into separate principal and interest components. A short or long first interest payment and all interest payments within a callable period are not eligible to be stripped from the principal component. The CUSIP numbers and payment dates for the principal and interest components are provided in the offering announcement if not previously announced.

#### **Treasury fixed-principal securities**

Minimum par amounts required for STRIPS. For a fixed-principal security to be stripped into the components described above, the par amount of the security must be in an amount that, based on its interest rate, will produce a semiannual interest payment in a multiple of \$1,000. Exhibit C to this part provides the minimum par amounts required to strip a fixed-principal security at various interest rates, as well as the corresponding interest payments. Amounts greater than the minimum par amount must be in multiples of \$1,000. The minimum par amount required to strip a particular security will be provided in the press release announcing the auction results

#### **Treasury inflation-indexed securities**

The minimum par amount of an inflation-indexed security that may be stripped into the components described in this section is \$1,000. Any par amount to be stripped above \$1,000 must be in a multiple of \$1,000.

## **15.06**

### **Review of Transactions**

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The designated principal is responsible for reviewing transactions executed in the U.S. Government securities. The designated principal will evidence such a review by initialing each document. ►►

#### **Implementation Strategy**

On a transactional basis, the designated principal will review government securities transaction documentation. All reviewed documentation will be initialed as evidence of review.

### **15.07 Books and Records Requirements**

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As a government securities broker/dealer, the Firm is required to make reports to and furnish copies of records to the appropriate regulatory agency, and to file with the appropriate regulatory agency, annually or more frequently, a balance sheet and income statement certified by an independent public accountant, prepared on a calendar or fiscal year basis, and such other financial statements and information concerning its financial condition. Therefore, every registered government securities broker/dealer shall comply with the following books and records requirements of *SEC Rule 17a-3 and 17a-4*:

In accordance with amended *Rule 17a-3(b)(1)*, the Firm shall not be required to make or keep such records of transactions that are customarily made and kept by a clearing broker or dealer pursuant to the requirements of *SEC Rule 17a-3* and *SEC Rule 17a-4* provided that the clearing firm has and maintains net capital of not less than \$250,000 (or, in the case of a clearing broker or dealer that is a registered government securities broker or dealer, liquid capital less total haircuts of not less than \$250,000) and is otherwise in compliance with *Rule 15c3-1*, Sec. 402.2 of this title, or the capital rules of the exchange of which such clearing broker or dealer is a member.

In accordance with amended *Rule 17a-3(b)(2)*, the Firm shall maintain and preserve the books and records required to be maintained pursuant to *Rules 17a-3 and 17a-4 under the Securities Exchange Act of 1934* and to permit examination of such books and records at any time by examiners or other representatives of the SEC, and to furnish such records to the SEC's principal office in Washington, DC, or at any regional office of the SEC specified in a demand made by or on behalf of said Commission for copies of books and records, true, correct, complete, and current copies of any or all, or any part, of such books and records. ►►

#### **Implementation Strategy**

On a transactional basis, the designated principal will review government securities transaction documentation such as trading reports and blotters to ensure that all information is properly completed. All reviewed documentation will be initialed and dated as evidence of review.