

# Frequently Asked Questions Relating to Treasury's Large Position Recordkeeping and Reporting Rules

*Note: This updated list of large position rule questions and answers reflects modifications as of October 14, 2011.*

*Specifically: a new FAQ 3.1.3 has been added that clarifies who must sign the large position report; a new note (Note 3) has been added to FAQ 3.4.2 that clarifies the treatment of failed financings; and several FAQs have been revised to remove references to outdated information. For the readers' convenience, the entire list of questions and answers is reproduced below.*

The information provided below is a summary of the most frequently asked questions, together with the answers that Treasury staff has provided in response to those questions. The Qs & As are grouped by category within the various sections of the rules. The Qs & As are not a substitute for the rules and as such should be used in conjunction with the actual regulations. Further, this information does not constitute a formal interpretation of the large position rules.

Any questions regarding the large position rules should be directed to the Government Securities Regulations Staff at 202-504-3632.

## 1) SECTION 420.1 - APPLICABILITY

- 1.1) Who is subject to the large position rules?
- 1.2) Are foreign aggregating entities subject to the large position requirements?

## 2) SECTION 420.2 - DEFINITIONS

- 2.1) Recently-Issued
  - 2.1.1) What is considered the most recent issue within the definition of “recently-issued?”
- 2.2) Reporting Entities, Aggregating Entities, Designated Filing Entities
  - 2.2.1) When a reporting entity has the right to appoint a majority of the board of directors for an outside entity, but has not exercised the right, does the outside entity fall within the definition of an affiliate or aggregating entity of the reporting entity?
  - 2.2.2) If the general partner of an aggregating entity personally invests in an outside entity, is that outside entity considered part of the aggregating entity for purposes of the rule?
  - 2.2.3) If an aggregating entity is the sole general partner of an outside entity, is the outside entity an affiliate of the aggregating entity for purposes of the large position rules?
  - 2.2.4) Can a designated filing entity submit separate large position reports for each aggregating entity within its reporting entity, or must it consolidate the report to be filed on behalf of the reporting entity?
  - 2.2.5) Can an individual be its own designated filing entity?
  - 2.2.6) Can an entity be a designated filing entity for two separate reporting entities?

## 3) SECTION 420.3 - REPORTING

- 3.1) Reporting Requirements and Turn-Around Time
  - 3.1.1) What procedures will Treasury use to issue and disseminate the notice requesting large position reports?
  - 3.1.2) When will the large position reports be due?
  - 3.1.3) Who must sign the large position report?
  - 3.1.4) Where should the large position reports be filed?
  - 3.1.5) When Treasury makes a request for large position reporting on a particular security, will \$2 billion be the large position threshold?

- 3.1.6) Must large position reports be submitted if the reporting entity's reportable position does not equal or exceed the large position threshold announced in a request for large position reports?
- 3.1.7) Are position amounts on the large position report recorded on a trade date basis or settlement date basis?
- 3.1.8) Can Treasury issue a request for large position information for more than one CUSIP (i.e., security) and/or for more than one reporting date in a single request?
- 3.1.9) What if one or more of a reporting entity's foreign affiliates is closed (due to a holiday) during the reporting time frame?
- 3.1.10) Is a custodian required to report on positions it holds in a safekeeping capacity?
- 3.1.11) Does a custodian have an obligation to inform its customers of the large position recordkeeping and reporting requirements?
- 3.1.12) Will Treasury release the large position information to the public?
- 3.2) Net Trading Position - Futures Contracts
  - 3.2.1) Are futures contracts to be included in the computation of the net trading position if securities designated as "cheapest to deliver" are specified for delivery to close out the contract?
- 3.3) Gross Financing Position
  - 3.3.1) Two aggregating entities are part of the same reporting entity and are not recognized as separate bidders in Treasury auctions. If the two aggregating entities conduct intercompany financing transactions with one another involving the same security (i.e., the same CUSIP and par amount), must both of these transactions be included in the gross financing position of the reporting entity's large position report?
  - 3.3.2) Two aggregating entities are part of two different reporting entities but are affiliated within a larger organizational structure (they have received recognition as separate bidders or separate reporting entities). If the two aggregating entities conduct intercompany financing transactions with each other involving the same security (same CUSIP and par amount), how must these transactions be treated by the respective reporting entities when aggregating gross financing position information for large position reports?
  - 3.3.3) How are forward start reverse repurchase transactions treated for large position reporting purposes? Must they be included in the calculation of the reporting entity's reportable position before the settlement date of the opening leg since the reporting entity has not yet received the security?
  - 3.3.4) How are dollar rolls treated for large position reporting purposes?
- 3.4) Net Fails Position
  - 3.4.1) What is the treatment of fails in the large position report?
  - 3.4.2) What is the treatment of fail financings in the large position report?

#### **4) SECTION 420.4 - RECORDKEEPING**

- 4.1) When does a reporting entity become subject to the large position recordkeeping requirements?
- 4.2) Would a reporting entity that is subject to the large position rules fall out of the recordkeeping requirements if it did not control a position equal to or greater than the minimum large position threshold (\$2 billion) for an extended period (e.g., one year)?
- 4.3) If funds, investment companies, or other entities are aggregated within a reporting entity, and such reporting entity is subject to the recordkeeping requirements of the rules, must the funds, investment companies, or other entities follow the recordkeeping rules also?
- 4.4) An entity (such as a hedge fund, pension fund, or insurance company) is not subject to federal securities recordkeeping rules but is required to follow the recordkeeping requirements of the large position rules (section 420.4(c)). Is it permissible for such an entity to have a third party make and maintain its records, including making and maintaining the records at another location?
- 4.5) Regarding the requirement to retain large position records for either 3 or 6 years, depending on the type of record, does the time frame apply from the date Treasury requests a large position report?

#### **5) APPENDIX A TO PART 420 - SEPARATE REPORTING ENTITY**

- 5.1) Does an entity qualify as a separate reporting entity without having to request such status if it already has received recognition as a separate bidder for purposes of Treasury auctions?
- 5.2) Conversely, does such an entity qualify as a separate bidder for auction purposes without requesting such status if the entity has already received recognition as a separate reporting entity for purposes of the large position rules?
- 5.3) Where a reporting entity consists of more than one aggregating entity, is each aggregating entity that requests recognition as a separate reporting entity required to send a separate written letter to Treasury?
- 5.4) Can organizational components that are not separate legal entities be carved out as separate reporting entities?

## **6) APPENDIX B TO PART 420 - SAMPLE LARGE POSITION REPORT**

- 6.1) When submitting a large position report, is there a specific form that must be used? What information must be submitted?
- 6.2) Can an individual sign a large position report as the authorized official if he/she does not have one of the specific titles listed in the rules?
- 6.3) Sample Large Position Report
- 6.4) Administrative Information to be Provided in the Report

[Return to top of questions](#)

### **1) SECTION 420.1 - APPLICABILITY**

1.1) Who is subject to the large position rules?

With the exception of foreign official organizations and the Federal Reserve Banks, Treasury's large position recordkeeping and reporting rules apply to all entities, foreign and domestic, that may control a reportable position in a recently-issued Treasury security. This includes but is not limited to: government securities brokers and dealers; registered investment companies; registered investment advisers; custodians, including depository institutions, that exercise investment discretion; hedge funds; pension funds; insurance companies; foreign banks; and foreign affiliates of U.S. entities.

Treasury places great importance on, and takes very seriously, compliance with its rules, especially those that are intended to strengthen the integrity of the Treasury securities market by combating manipulation and fraud. It is important for all market participants to recognize that the rules create a requirement for affected entities to maintain records and report information on large positions. In considering the issue of obtaining large position information from foreign entities, the Treasury expects that U.S. regulators will work with foreign securities and banking regulators through Memorandums Of Understanding and other means when, and if, such actions become necessary.

1.2) Are foreign aggregating entities subject to the large position requirements?

Yes, with very limited exceptions (see question 1.1), foreign investors are subject to the requirements. It is impractical to exempt foreign investors from the large position rules since the potential exists for these entities to amass large positions in Treasury securities. Further, the granting of such an exemption could cause U.S.- based entities to move their securities holdings overseas to foreign firms.

[Return to questions](#)

### **2) SECTION 420.2 - DEFINITIONS**

2.1) Recently-Issued

2.1.1) What is considered the most recent issue within the definition of "recently-issued?"

"Recently-issued" Treasury securities are defined in the rules and are determined by the frequency of the issue. For those securities that are issued on a quarterly or more frequent basis (i.e., bills and notes), the three most recent issues are considered "recently-issued." For those securities that are issued less frequently than quarterly, the two most recent issues would be "recently-issued."

For all Treasury securities, a when-issued security -- a security announced to be issued or auctioned but as yet unissued -- would be included in the definition of "recently-issued" and would be considered the most recent issue. A when-issued security is always the most recent issue.

Note: Treasury reserves the right to go outside of these timeframes when issuing a call for large position reports.

## 2.2) Reporting Entities, Aggregating Entities, Designated Filing Entities

2.2.1) When a reporting entity has the right to appoint a majority of the board of directors for an outside entity, but has not exercised the right, does the outside entity fall within the definition of an affiliate or aggregating entity of the reporting entity?

No, the outside entity does not fall within the definition of affiliate or aggregating entity simply because the reporting entity has the right to appoint a majority of its board of directors. The entity would fall within the definition of affiliate or aggregating entity when the reporting entity exercises its right and appoints a majority of the board of directors to the entity.

2.2.2) If the general partner of an aggregating entity personally invests in an outside entity, is that outside entity considered part of the aggregating entity for purposes of the rule?

Subject to other applicable restrictions contained in the rule, the outside entity would not be considered part of the aggregating entity unless the general partner owned more than 50% of the partnership and more than 50% of the outside entity.

2.2.3) If an aggregating entity is the sole general partner of an outside entity, is the outside entity an affiliate of the aggregating entity for purposes of the large position rules?

Yes, the outside entity is considered an affiliate of the aggregating entity under the large position rules. The definition of "affiliate" under the large position rules includes an "entity, a majority of whose board of directors or a majority of whose general partners are directors or officers of the aggregating entity..." (see section 420.2(i) of the large position rules). In cases where the aggregating entity is the sole general partner of an outside entity, the general partner constitutes the "majority" of general partners of the outside entity. Therefore, when a reporting entity calculates its reportable position to determine if it has reached the threshold announced in a call for large position reports, the reporting entity must include the reportable position of this type of outside entity (the aggregation is also required when an actual report is prepared and submitted). Moreover, the outside entity would be subject to the large position recordkeeping rules if, after the inclusion of the outside entity's reportable position, the reporting entity were subject to the recordkeeping rules.

If an outside entity that is an affiliate invests in another outside entity, the latter outside entity would become an affiliate *only* if it fell within the definition of affiliate under the large position rules. For example, if an outside entity that is an affiliate owns 40% of another outside entity, the 40%-owned outside entity would not become an affiliate unless the ownership interest increased to over 50% or unless the outside entity fell within some other part of the definition of affiliate under the large position rules. However, regardless of whether an outside entity is an affiliate, any portion of an outside entity's reportable position over which a reporting entity has investment discretion must be aggregated with the reportable position of that reporting entity. Further, records of an outside entity's transactions in Treasury securities must be maintained by a reporting entity if, after the inclusion of the outside entity's Treasury securities positions over which the reporting entity has investment discretion, the reporting entity were subject to the recordkeeping rules (i.e., if the inclusion of the outside entity's externally controlled position in Treasury securities caused the reporting entity to reach or exceed the recordkeeping threshold of \$2 billion). This is the same treatment discussed in question 4.3 addressing the responsibility of the entity that has control of (i.e., investment discretion over) the Treasury securities to adhere to the recordkeeping requirements of the rules.

2.2.4) Can a designated filing entity submit separate large position reports for each aggregating entity within its reporting entity, or must it consolidate the report to be filed on behalf of the reporting entity?

A reporting entity must select one entity from its aggregating entities (i.e., the designated filing entity) as the entity designated to compile and file a consolidated report on behalf of the entire reporting entity. A designated filing entity is not required to be a distinct legal entity.

2.2.5) Can an individual be its own designated filing entity?

Yes, an individual can be her/his own designated filing entity. An individual can also be the designated filing entity of a reporting entity consisting of multiple entities.

2.2.6) Can an entity be a designated filing entity for two separate reporting entities?

No, each separate reporting entity must select one entity from among its own aggregating entities as the entity designated to compile and file a report on its behalf. This is designed to prevent the exchange of information related to transactions in Treasury securities between separate reporting entities.

[Return to questions](#)

### 3) SECTION 420.3 - REPORTING

#### 3.1) Reporting Requirements and Turn-Around Time

##### 3.1.1) What procedures will Treasury use to issue and disseminate the notice requesting large position reports?

Treasury will provide notice requesting large position reports by issuing a press release and subsequently publishing a notice in the Federal Register. The press release will be made available to major news and financial organizations and electronic wire services for dissemination. The announcement requesting large position reports will also be provided to several industry associations, so that they can distribute the announcement to their members. An electronic mailing list for notifications of calls for large position reports is available at [www.treasurydirect.gov](http://www.treasurydirect.gov). Anyone signing up on this list will receive e-mail notifications of Treasury calls for Large Position Reports. It is the responsibility of market participants to take the necessary actions to be aware of requests by the Treasury for large position reports.

##### 3.1.2) When will the large position reports be due?

Large position reports must be received by the Federal Reserve Bank of New York before noon Eastern time on the fourth business day after the issuance of the Treasury press release calling for large position information. The actual date on which reports are due will be provided in the press release.

##### 3.1.3) Who must sign the large position report?

The large position report must be signed by one of the following: the chief compliance officer; chief legal officer; chief financial officer; chief operating officer; chief executive officer; or managing partner or equivalent. The designated filing entity must also include in the report, immediately preceding the signature, a statement of certification (see [Sample Large Position Report](#)).

##### 3.1.4) Where should the large position reports be filed?

Large position reports must be filed with the Government Securities Dealer Statistics Unit of the Federal Reserve Bank of New York, 33 Liberty Street, 4th Floor, New York, NY. The reports may be filed by facsimile at 212-720-5030 or delivered hard copy.

##### 3.1.5) When Treasury makes a request for large position reporting on a particular security, will \$2 billion be the large position threshold?

The \$2 billion level is an absolute minimum reporting amount (floor) below which reports will not be requested.

##### 3.1.6) Must large position reports be submitted if the reporting entity's reportable position does not equal or exceed the large position threshold announced in a request for large position reports?

No, large position reports are not required to be submitted unless the reporting entity's reportable position equals or exceeds the large position threshold announced by Treasury in a request for large position reports. However, large position reports may be submitted voluntarily when the reporting entity's reportable position is below the announced threshold if the reporting entity considers its reportable position to be relatively close to the announced threshold.

##### 3.1.7) Are position amounts on the large position report recorded on a trade date basis or settlement date basis?

All position amounts on the large position report (including the memorandum items) must be reported on a trade date basis, at par in millions of dollars, and as of the close of business of the reporting date(s) specified in the notice. For Treasury inflation-protected securities, the par amount is the stated value of a security at original issuance.

##### 3.1.8) Can Treasury issue a request for large position information for more than one CUSIP (i.e., security) and/or for more than one reporting date in a single request?

Yes, Treasury can request large position reports for more than one CUSIP and also for more than one reporting date. In those instances, separate large position information must be submitted for each CUSIP and each reporting date.

3.1.9) What if one or more of a reporting entity's foreign affiliates is closed (due to a holiday) during the reporting time frame?

Treasury is sympathetic to the concerns regarding the time and effort needed to compile, aggregate, and file the large position reports, particularly where reporting entities have foreign affiliates. However, significant changes were made in the final rules to reduce the burdens associated with complying with the large position rules. Accordingly, all reportable positions of foreign affiliates must be included in the large position report to meet the three and one-half business day reporting requirement, regardless of holidays.

3.1.10) Is a custodian required to report on positions it holds in a safekeeping capacity?

No, a custodian is not required to report on such positions, provided it does not have the authority to exercise control (i.e., investment discretion) over the purchase, sale, retention or financing of specific Treasury securities. However, if the custodian has the authority to exercise control, the custodian would be required to report on such positions.

3.1.11) Does a custodian have an obligation to inform its customers of the large position recordkeeping and reporting requirements?

No, under Treasury's large position rules, neither a custodian nor an executing broker-dealer is obligated to inform its customers of these recordkeeping and reporting requirements.

3.1.12) Will Treasury release the large position information to the public?

No, the Government Securities Act Amendments of 1993, which granted Treasury the authority to write these rules, specifically provide that Treasury will not be compelled to disclose publicly any information required to be kept or reported. In particular, such information is exempt from disclosure under the Freedom of Information Act.

### 3.2) Net Trading Position - Futures Contracts

3.2.1) Are futures contracts to be included in the computation of the net trading position if securities designated as "cheapest to deliver" are specified for delivery to close out the contract?

No, since securities other than the one that is the subject of the call for a large position report can be delivered. The security that is the "cheapest to deliver" frequently changes over the life of a futures contract such that the security that actually gets delivered may not be known until the settlement date of the contract. Since the "cheapest to deliver" security may be one of several different securities, albeit one of those that is the subject of a large position report, a futures contract that involves delivery of the "cheapest to deliver" security would not be included in the computation of the net trading position.

### 3.3) Gross Financing Position

3.3.1) Two aggregating entities are part of the same reporting entity and are not recognized as separate bidders in Treasury auctions. If the two aggregating entities conduct intercompany financing transactions with one another involving the same security (i.e., the same CUSIP and par amount), must both of these transactions be included in the gross financing position of the reporting entity's large position report?

In this case, the reporting entity need only count the security once when preparing a large position report. This approach allows firms to avoid multiple counting within a reporting entity. For example, assume that aggregating entity A and aggregating entity B are part of the same reporting entity. Aggregating entity A enters into a reverse repo and receives \$100 million of a security as collateral. It then repos out the \$100 million security to aggregating entity B. The reporting entity, upon submitting a large position report for the CUSIP used in this example, would not have to include both \$100 million transactions when aggregating and reporting its gross financing position -- even though both aggregating entities would have conducted reverse repos.

Similarly, assume that aggregating entity A has a \$100 million proprietary long position and repos out the security to aggregating entity B. The reporting entity need only include the security once when it aggregates information for a large position report. The

\$100 million is either included in its net trading position (attributable to aggregating entity A's proprietary long position) or in its gross financing position (attributable to aggregating entity B's reverse repo).

3.3.2) Two aggregating entities are part of two different reporting entities but are affiliated within a larger organizational structure (they have received recognition as separate bidders or separate reporting entities). If the two aggregating entities conduct intercompany financing transactions with each other involving the same security (same CUSIP and par amount), how must these transactions be treated by the respective reporting entities when aggregating gross financing position information for large position reports?

Even though the transactions involve the same security, they must be included in the large position computations of each aggregating entity's respective reporting entity. If aggregating entities A and B conduct transactions as described in question 3.3.1 and are affiliated but part of separate reporting entities, the reporting entity for aggregating entity A would have to count the \$100 million security in its large position computation as either a gross financing position or a net trading position, while the reporting entity for aggregating entity B would be required to include the \$100 million security in its gross financing position. This approach applies in all cases where aggregating entities A and B belong to separate reporting entities -- regardless of whether they are affiliated.

The rules require this type of reporting even though the security is no longer in the possession of aggregating entity A -- the security has been contemporaneously repoed out to aggregating entity B -- since both reporting entities control the security (based on the definition of control in the large position rules). This approach will result in some multiple counting by reporting entities, but the resulting multiple counting will provide additional information about entities that have various legal claims to a security and that may potentially benefit from any possible market disruptions.

3.3.3) How are forward start reverse repurchase transactions treated for large position reporting purposes? Must they be included in the calculation of the reporting entity's reportable position before the settlement date of the opening leg since the reporting entity has not yet received the security?

Note: Forward start reverse repos must be included in the gross financing computation *only* if such transactions require a specific CUSIP as collateral -- the same CUSIP that is the subject of a call for large position reports. Forward start reverse repos would not be included in the computation if such transactions allowed for a range of possible securities as collateral (e.g., general collateral forward start reverse repos). This treatment is consistent with the treatment of "cheapest to deliver" futures contracts in question 3.2. The forward start reverse repo in the following example requires the use of a specific CUSIP as collateral. For purposes of the following example, the only transactions for the security are the ones described, and par value is equal to \$100.

Assume that on 6/15/XX, a reporting entity enters into a trade to sell a \$100 Treasury security for settlement on 6/16/XX. If Treasury requests large position reports for positions in that CUSIP to be calculated as of 6/15/XX, the reporting entity would report the following:

Net Forward Settling Positions Including Next-Day Settling	-\$100
Line 1 Total Net Trading Position	-\$100
Line 2 Total Gross Financing Position	\$0
Line 3 Net Fails Position	\$0

On 6/16/XX, the reporting entity then enters into a term reverse repo whose underlying collateral is a \$100 Treasury security (same CUSIP as above), with same-day settlement. The date of the termination (when the closing leg settles) is 6/20/XX. In addition, the \$100 cash market sale specified above settles as scheduled on 6/16/XX (the firm uses the security obtained through the term reverse repo to make delivery). If Treasury requests large position reports for positions in that CUSIP to be calculated as of 6/16/XX, the reporting entity would report the following:

Line 1 Total Net Trading Position	\$0
Reverse Repurchase Agreement Term	\$100
Line 2 Total Gross Financing Position	\$100
Line 3 Net Fails Position	\$0

On 6/17/XX, the reporting entity then enters into a trade to buy \$100 of a Treasury security (same CUSIP as above) to be settled on 6/23/XX. That same day (6/17/XX), the reporting entity enters into a forward start reverse repo whose underlying collateral is

a \$100 Treasury security (same CUSIP). The date of the initiation (opening leg settlement date) of the forward start reverse repo is 6/21/XX, and the date of the termination (closing leg settlement date) is 6/22/XX. If Treasury requests large position reports for positions in that CUSIP to be calculated as of 6/17/XX, 6/18/XX, or 6/19/XX, the reporting entity would report the following:

Net Forward Settling Positions Including Next-Day Settling	\$100
Line 1 Total Net Trading Position	\$100
Reverse Repurchase Agreements Term	\$100
Overnight and Open	\$100
Line 2 Total Gross Financing Position	\$200*
Line 3 Net Fails Position	\$0

\* As shown above, forward start reverse repos requiring the use of a specific CUSIP as collateral must be included in the gross financing computation as of the trade date, just as forward settling cash trades are included in the net trading position as of the trade date (see 61 FR 48343, September 12, 1996).

If Treasury requests large position reports for positions in that CUSIP to be calculated as of 6/20/XX, the reporting entity would report the following:

Net Forward Settling Positions Including Next-Day Settling	\$100
Line 1 Total Net Trading Position	\$100
Reverse Repurchase Agreements Overnight and Open	\$100
Line 2 Total Gross Financing Position	\$100*
Line 3 Net Fails Position	\$0 *

The gross financing position decreased by \$100 because the closing leg of the term reverse repo entered into on 6/16/XX settled.

### 3.3.4) How are dollar rolls treated for large position reporting purposes?

Dollar rolls should be reported in the gross financing position under "other financial transactions" if the securities are being received in, or in Memorandum 1 under "other financial transactions" if the securities are being delivered out.

Note: Dollar rolls must be included in the gross financing computation only if such transactions require a specific CUSIP as collateral -- the same CUSIP that is the subject of a call for large position reports. Dollar rolls would not be included in the computation if such transactions allowed for a range of possible securities as collateral (e.g., general collateral dollar rolls).

### 3.4) Net Fails Position

#### 3.4.1) What is the treatment of fails in the large position report?

Note: For purposes of the following answers, all transactions are at par value. Also, Line 3 Net Fails Position equals fails to receive less fails to deliver. If the difference is equal to or less than zero, report 0 (see section 420.2(e) of the large position rules). Memorandum 2 reflects the gross par amount of fails-to-deliver (also included in Line 3).

**The Cash Market -- Fails-to-Receive.** Firm A has \$100 of a Treasury security in its inventory. On day one (*trade date*), the firm enters into two transactions involving the same CUSIP as the security in the firm's inventory: a cash market purchase of \$70 and a cash market sale of \$30, both for regular-way (i.e., next-day) settlement. On day two, Firm A fails to receive the \$70 security and fails to deliver the \$30 security.

Treasury requests large position reports for positions to be calculated as of day one (trade date). Firm A's large position report would include the following entries:

Cash/Immediate Net Settled Positions	\$100
Net Forward Settling Positions Including Next-Day Settling	\$40
Line 1 Total Net Trading Position	\$140
Line 2 Total Gross Financing Position	\$0



Line 3 Net Fails Position \$0

If Treasury requests large position reports for positions to be computed as of day two (the settlement date of the transactions), the firm's large position report would include the following entries:

Cash/Immediate Net Settled Positions	\$100
Line 1 Total Net Trading Position	\$100
Line 2 Total Gross Financing Position	\$0
Line 3 Net Fails Position	\$40*
* (\$70 - \$30 = \$40)	
Memorandum 2 (Gross Fails to Deliver)	\$30

The explanation for this result is as follows. As clarified in the preambles of both the proposed and final large position rules, a position remaining unsettled after its scheduled settlement date (the term "settlement" has the same meaning as "clearance" in this document) is not to be included in the computation of the net trading position (see 60 FR 65219, December 18, 1995 and 61 FR 48345, September 12, 1996, respectively). Accordingly, when Treasury requests the computation for day two, the \$40 net position that was formerly a net long calculation on day one must be removed from the net trading position and included in the net fails position (as fails-to-receive minus fails-to-deliver). The \$30 fail-to-deliver must be reported in Memorandum 2 (final rule amendment issued on December 18, 2002).

**The Cash Market -- Fails-to-Deliver.** On day one, Firm A is long \$100 of a Treasury security, which is held in its inventory. That same day, the firm enters into a trade to sell \$40 of the security for regular-way (i.e., next day) settlement. There was some confusion regarding the delivery instructions, however, and the firm failed to deliver the security on day two.

Treasury requests large position reports for positions to be calculated as of day one (trade date). The firm would include the following entries in its large position report:

Cash/Immediate Net Settled Positions	\$100
Net Forward Settling Positions including Next-Day Settling	-\$40
Line 1 Total Net Trading Position	\$60
Line 2 Total Gross Financing Position	\$0
Line 3 Net Fails Position	\$0

If Treasury requests large position reports for positions to be computed as of day two, the firm would include the following entries in its large position report:

Cash/Immediate Net Settled Positions	\$100
Line 1 Total Net Trading Position	\$100
Line 2 Total Gross Financing Position	\$0
Line 3 Net Fails Position	\$0*
* (\$0 - \$40 = -\$40)	
Memorandum 2	\$40

The rationale for this result is identical to that used in the treatment of fails-to-receive. As stated in the preambles of both the proposed and final large position rules (60 FR 65219, December 18, 1995 and 61 FR 48345, September 12, 1996, respectively), a position that remains unsettled after its scheduled settlement date (the term "settlement" has the same meaning as "clearance" in this document) is not included in the net trading position computation. Thus, for the computation as of *day one*, the \$40 sale is included in the net trading position computation by being subtracted from the \$100 long position. However, for the computation as of day two, the \$40 sale, which is now failing, must be removed from the net trading position (which causes the net trading position to revert to \$100) and included in the computation of the net fails position as a fail-to-deliver. This is because the past settlement date sale, unlike the forward settling sale position in day one, does not reduce the size of the net trading position. For purposes of the large position rules, net forward settling positions include next-day settling positions. Additionally, since there are no fails-to-receive in this example, the net fails position computation would be \$0 - \$40 = -\$40. Whenever the net fails

position computation is equal to or less than zero, zero is entered as the net fails position. The \$40 fail-to-deliver must be reported in Memorandum 2 (final rule amendment issued on December 18, 2002).

3.4.2) What is the treatment of fail financings in the large position report?

Note: For purposes of the following answers,

1) The only activity for the security issue is the transaction described, and par is equal to \$100. Also, Line 3 Net Fails Position equals fails-to-receive less fails-to-deliver. If the difference is equal to or less than zero, report 0 (see section 420.2(e) of the large position rules).

2) Treasury staff understands that, in certain circumstances, reporting entities may be unable to determine whether a fail is the result of a cash purchase transaction or a reverse repo transaction. Therefore, if a reporting entity is unable to specifically identify the type of transaction that led to a failed position, and the reporting entity maintains that different assumptions about the source of the fail (e.g., originally a cash trade vs. a reverse repo) led to different reportable position calculations, the reporting entity should always use the most conservative approach -- the calculation that produces the highest reportable position.

3) Financing transactions remaining unsettled after their scheduled settlement date are not to be included in the computation of the gross financing position.

**Reverse Repurchase Transactions.** Firm A enters into a term reverse repurchase transaction with same-day settlement, which is also the date for which Treasury requires positions to be calculated for a large position report. Firm A would report the following:

Line 1 Total Net Trading Position	\$0
Reverse Repurchase Agreements Term \$100	
Line 2 Total Gross Financing Position	\$100
Line 3 Total Net Fails Position	\$0

However, if Firm A fails to receive the security at the end of the day of the initiation (opening leg) of the reverse repo, Firm A would report the following:

Line 1 Total Net Trading Position	\$0
Line 2 Total Gross Financing Position	\$0
Line 3 Net Fails Position	\$100*

\*  $(100 - 0 = 100)$ . For forward reverse repos, this entry would be made for positions to be computed as of the settlement date of the opening leg.

On the settlement date of the termination (closing leg) of the term reverse repo, Firm A fails to deliver the securities that were received at the initiation of the transaction. This is also the date for which Treasury requires positions to be calculated for a large position report. Firm A would report the following:

Line 1 Total Net Trading Position	\$0
Line 2 Total Gross Financing Position	\$0
Line 3 Net Fails Position	\$0*
* $(0 - 100 = -100)$	
Memorandum 2	\$100

**Repurchase Transactions.** Firm A enters into an open repurchase transaction with same-day settlement, which is also the date for which Treasury requires positions to be computed for a large position report. Firm A would report the following:

Line 1 Total Net Trading Position	\$0
Line 2 Total Gross Financing Position	\$0

Line 3 Net Fails Position	\$0
Repurchase Agreements	
Overnight and Open	\$100
Total Memorandum 1	\$100

However, if Firm A fails to deliver the security at the end of the day of the initiation of the open repo, Firm A would report the following:

Line 1 Total Net Trading Position	\$0
Line 2 Total Gross Financing Position	\$0
Line 3 Net Fails Position	\$0*
* (0 - 100 = -100). For forward repos, this calculation would be made for positions to be computed as of the settlement date of the opening leg.	
Memorandum 1	\$0
Memorandum 2	\$100

On the settlement date of the termination of the open repo, Firm A fails to receive the securities that were delivered at the initiation of the transaction. This is also the date for which Treasury requires positions to be computed for a large position report. Firm A would report the following:

Line 1 Total Net Trading Position	\$0
Line 2 Total Gross Financing Position	\$0
Line 3 Net Fails Position	\$100*
* (100 - 0 = 100)	
Memorandum 1	\$0
Memorandum 2	\$0

[Return to questions](#)

## 4) SECTION 420.4 - RECORDKEEPING

4.1) When does a reporting entity become subject to the large position recordkeeping requirements?

Whenever a reporting entity controls a position of \$2 billion or more in a Treasury security it becomes immediately subject to the full range of large position recordkeeping rules.

4.2) Would a reporting entity that is subject to the large position rules fall out of the recordkeeping requirements if it did not control a position equal to or greater than the minimum large position threshold (\$2 billion) for an extended period (e.g., one year)?

No, once a reporting entity becomes subject to the large position recordkeeping rules, it must continue to make and maintain the required records even if it did not reach the \$2 billion large position threshold for an extended period of time.

4.3) If funds, investment companies, or other entities are aggregated within a reporting entity, and such reporting entity is subject to the recordkeeping requirements of the rules, must the funds, investment companies, or other entities follow the recordkeeping rules also?

If the funds, investment companies, or other entities do not have investment discretion (e.g., if the authority to make and execute decisions regarding buying, selling, or retaining securities resides with another entity, such as their investment adviser), they are not deemed to have control of securities under the large position rules. In such cases, it is the responsibility of the entity that has control of the securities (i.e., the reporting entity), not such aggregating entities, to adhere to the recordkeeping requirements of

the rules. The reporting entity's records must include information concerning all securities for which it exercises investment discretion, including the securities owned by other entities.

4.4) An entity (such as a hedge fund, pension fund, or insurance company) is not subject to federal securities recordkeeping rules but is required to follow the recordkeeping requirements of the large position rules (section 420.4(c)). Is it permissible for such an entity to have a third party make and maintain its records, including making and maintaining the records at another location?

Yes, such an entity may have its records made by, and kept at, a third party, including a third party that makes and maintains the records at another location (e.g., the offices of an entity's prime or clearing broker-dealer). However, the entity that is subject to the recordkeeping rules, not the third party that has been contracted to make and maintain the records, remains responsible for compliance with such rules.

4.5) Regarding the requirement to retain large position records for either 3 or 6 years, depending on the type of record, does the time frame apply from the date Treasury requests a large position report?

No, the records retention or preservation requirements in sections 420.4(b) and (c) apply from the date that a transaction is effected and the related records are created, not from the date that Treasury requests large position reports for a specific security.

[Return to questions](#)

## **5) APPENDIX A TO PART 420 - SEPARATE REPORTING ENTITY**

5.1) Does an entity qualify as a separate reporting entity without having to request such status if it already has received recognition as a separate bidder for purposes of Treasury auctions?

Yes, an entity that receives recognition as a separate bidder for auction purposes is also recognized as a separate reporting entity without having to request this status. However, the entity must maintain procedures (i.e., Chinese walls) to prevent the exchange of information related to secondary market transactions in Treasury securities, not just auction-related transactions, with any other aggregating entity.

5.2) Conversely, does such an entity qualify as a separate bidder for auction purposes without requesting such status if the entity has already received recognition as a separate reporting entity for purposes of the large position rules?

No, the process does not work in the reverse direction. Therefore, an entity that would like recognition as a separate reporting entity may want to consider requesting recognition as a separate bidder for auction purposes and, if granted, automatically obtain separate reporting entity recognition at the same time.

5.3) Where a reporting entity consists of more than one aggregating entity, is each aggregating entity that requests recognition as a separate reporting entity required to send a separate written letter to Treasury?

No, more than one request may be contained in a letter. However, the required information for each request, such as the certification, should be provided separately for each requested reporting entity in the letter.

5.4) Can organizational components that are not separate legal entities be carved out as separate reporting entities?

Yes, since organizational components (e.g., bank trust departments) fall within the definition of "aggregating entity," they may be recognized as separate reporting entities. As is the case with separate bidder recognition in the auctions, organizational components are not required to be distinct legal entities.

[Return to questions](#)

## **6) APPENDIX B TO PART 420 - SAMPLE LARGE POSITION REPORT**

6.1) When submitting a large position report, is there a specific form that must be used? What information must be submitted?

No, there is no specific form that is required. Rather than mandating a specific form, Treasury permits reporting entities to develop their own large position reports, provided that the reports contain all of the required information as detailed in the rules. It is suggested that the following sample be used as a guide. Market participants are advised to carefully read the rules to ensure that all the required information is reported correctly. Failure to include any of the required information, including administrative information, in the large position report will constitute non-compliance with the rules.

6.2) Can an individual sign a large position report as the authorized official if he/she does not have one of the specific titles listed in the rules?

Yes, such an individual may sign a large position report as long as he or she is the functional equivalent (i.e., has equivalent authority or responsibilities) of one of the officials listed in the rules. For example, an entity's treasurer may sign the report in lieu of a chief financial officer if he or she acts as the entity's top decision-maker regarding the entity's financial matters.

### 6.3) Sample Large Position Report

Formula for Determining a Reportable Position  
(\$ Amounts in millions at par value as of trade date)

Security Being Reported: \_\_\_\_\_  
Date For Which Information is Being Reported: \_\_\_\_\_

#### 1. Net Trading Position

Cash/Immediate Net Settled Positions \$ \_\_\_\_\_  
Net When-Issued Positions for To-Be-Issued  
and Reopened Issues \$ \_\_\_\_\_  
Net Forward Settling Positions Including  
Next-Day Settling \$ \_\_\_\_\_  
Net Positions in Futures Contracts Requiring  
Delivery of the Specific Security \$ \_\_\_\_\_  
Net Holdings of STRIPS Principal Components  
of the Specific Security \$ \_\_\_\_\_

TOTAL NET TRADING POSITION \$ \_\_\_\_\_

#### 2. Gross Financing Position

Total of securities received through  
Reverse Repurchase Agreements  
Overnight and Open \$ \_\_\_\_\_  
Term \$ \_\_\_\_\_  
Bonds borrowed, and as collateral for financial  
derivatives and other financial  
transactions \$ \_\_\_\_\_  
TOTAL GROSS FINANCING POSITION \$ \_\_\_\_\_

3. Net Fails Position \$ \_\_\_\_\_

(Fails to receive less fails to deliver. If equal to or less than zero, report 0.)

4. TOTAL REPORTABLE POSITION = \$ \_\_\_\_\_

#### Memorandum 1

Report the total gross par amounts of securities delivered through

Repurchase Agreements

Overnight and Open \$ \_\_\_\_\_

Term \$ \_\_\_\_\_

Securities loaned, and as collateral for financial derivatives and other securities transactions \$ \_\_\_\_\_

TOTAL MEMORANDUM 1 \$ \_\_\_\_\_

## Memorandum 2

Report the gross par amount of fails to deliver. Included in the calculation of line item 3 (Net Fails Position \$ \_\_\_\_\_)

### 6.4) Administrative Information to be Provided in the Report

Name of Reporting Entity:

Address of Principal Place of Business:

Name and Address of the Designated Filing Entity:

Treasury Security Reported on:

CUSIP Number:

Date or Dates for Which Information Is Being Reported:

Date Report Submitted:

Name and Telephone Number of Person to Contact Regarding Information Reported:

Name and Position of Authorized Individual Submitting this Report (Chief Compliance Officer; Chief Legal Officer; Chief Financial Officer; Chief Operating Officer; Chief Executive Officer; or Managing Partner or Equivalent of the Designated Filing Entity Authorized to Sign Such Report on Behalf of the Entity):

Statement of Certification: "By signing below, I certify that the information contained in this report with regard to the designated filing entity is accurate and complete. Further, after reasonable inquiry and to the best of my knowledge and belief, I certify: (i) that the information contained in this report with regard to any other aggregating entities is accurate and complete; and (ii) that the reporting entity, including all aggregating entities, is in compliance with the requirements of 17 CFR Part 420."

Signature of Authorized Person Named Above:

[Return to questions](#)

Department of the Treasury

Bureau of the Public Debt

Government Securities Regulations Staff