



September 10, 2001

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

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

Dear Ladies and Gentlemen:

J.P. Morgan Securities Inc. ("J.P. Morgan Securities") appreciates this opportunity to comment on the Department of the Treasury's Advance Notice of Proposed Rulemaking with regard to the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds; Calculation of Net Long Position and 35 Percent Limit, 31 CFR Part 356, July 19, 2001 (the "Proposed Rulemaking"). J.P. Morgan Securities is a primary dealer in U.S. government securities and a subsidiary of J.P. Morgan Chase & Co. Collectively, J.P. Morgan Securities and other subsidiaries of J.P. Morgan Chase & Co. are active, both as market makers and investors, in the U.S. Treasury markets, and as such are keenly interested in removing regulatory impediments to broader participation in auctions of U.S. Treasury securities.

J.P. Morgan Securities strongly supports the Treasury's decision to consider modifying the net long position ("NLP") reporting and 35 percent limit requirements (the "35 Percent Rule") as applied to reopenings.

J.P. Morgan Securities strongly prefers Treasury's Alternative 4 set forth in the Proposed Rulemaking, which is to continue to calculate the 35 percent limit on the reopening offering amount, but to redefine NLP as including only the net when-issued position of the bidder. Alternative 4 was recommended by the Treasury Borrowing Advisory Committee of the Bond Market Association, of which J.P. Morgan Securities is a member. J.P. Morgan Securities believes that this approach would ensure the broadest dealer participation in reopenings, while providing benefits over other listed alternatives. The benefits of Alternative 4 are as follows:

- Alternative 4 allows for large financial institutions, such as J.P. Morgan Securities and the affiliates on whose behalf it bids in auctions, to bid on and receive up to 35 percent of a reopening, regardless of the outstanding positions these institutions hold for a variety of hedging, market making and investment purposes. This results in the most competitive bidding possible, as large US Treasury holders such as J.P. Morgan



Securities and its affiliates will be less likely to be prohibited from bidding in a reopening.

- Alternative 4 allows for a maximum 35 percent award of a reopening, assuming a zero when-issued NLP, which ensures that the reopening is broadly distributed across reopening bidders and allows for an orderly and liquid secondary market. Restricting the right to bid in a reopening based on previous auction holdings, however, would not ensure that upon settlement any bidder and its affiliates would be holding less than 35 percent of the combined auction amounts, due to the significant amount of secondary trading commencing seconds after the auction. Undue concentration of ownership, thus, must continue to be monitored through other important legal and regulatory protections in the US Treasury marketplace, such as the Treasury's Large Position Reporting, anti-market manipulation laws, and the weekly U.S. Treasury reporting requirements of primary dealers.
- Alternative 4 is simpler to implement. J.P. Morgan Securities, which bids on behalf of multiple affiliates and for the benefit of multiple trading desks whose information must be collected on the auction day, prefers a rule which allows the calculation of NLP to be based on net positions in when-issued trades for a particular reopening, rather than one which involves additional calculations or exclusions and which might be revised for different reopenings.

J.P. Morgan Securities greatly appreciates this opportunity to demonstrate its strong support for Alternative 4, and commends the Treasury for its significant efforts in developing the proposed alternatives to the current NLP reporting requirements and the 35 Percent Rule. An improved and fair auction process for reopenings will result from these efforts. If you have any questions regarding this letter, please feel free to contact the undersigned at 212-834-5050, Tom Connor at 212-834-4771 or Carolyn Monroe-Koatz, Vice President and Assistant General Counsel, at 212-270-5919. Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark B. Werner', written over a horizontal line.

Mark B. Werner

President,

J.P. Morgan Securities Inc.