**Standard Forms / Documentation / Guidelines Revised Government Securities Trading Practice Guideline**

TO:

Members of the Primary Dealers Executive Committee

Members of the Primary Dealers Committee

Members of the Government Operations Committee

Members of the Asian Primary Dealers Committee

Members of the London Primary Dealers Committee

Members of the Funding Division Executive Committee

Members of the Funding Division Trading Practices Committee

Members of the Funding Division Committee

Members of the Brokers Working Group

Members of the General Collateral Working Group

FROM: Paula H. Simpkins

DATE: November 17, 1997

RE: Revised Government Securities Trading Practice Guideline

The Primary Dealers Executive Committee of the Association has elected to revise the Government Securities Trading Securities Practice Guideline regarding when the cash government markets should go "subject." The revised guideline recommends that cash government markets should go "subject" only for discount rate changes, significant Fed Open Market Operations, and any other major event that is anticipated to have a significant effect on the government securities markets. The most notable change from the existing recommendation is that the cash market should stay "live" for Fed coupon passes and Fed bill passes.

The Funding Division Executive Committee is currently reviewing whether this revised trading practice guideline should be adopted for the repo markets. It is anticipated a decision will be made within the next couple of weeks.

Within the next three weeks, a hard copy of the revised trading practice guideline will be circulated for inclusion in the Government Securities Manual.

For your convenience, a copy of the revised trading practice guideline is attached to this notice.

cc: Roger Anderson, Kenneth R. Papaj, Department of the Treasury

Peter Fisher, Sandra C. Kreiger, Debra A. Perelmuter, FRBNY

Paul Saltzman, Patricia E. Brigantic, Betsy F. Barclay, The Bond

Market Association

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**UPDATE**

**Government Securities Trading Practice Guidelines**

In order to eliminate confusion, promote greater efficiency and promote trading practice uniformity in the markets for government securities, the Primary Dealers Executive Committee of the Association's Government and Federal Agency Securities Division revised the Government Securities Trading Practice Guidelines by further limiting the recommended instances when the cash markets should go "subject." As revised, the Association recommends that cash markets should go "subject" only for significant Fed Open Market Operations which signal a change in the Federal Reserve Bank's monetary policy, for discount rate changes, and for major occurrences that are expected to have a significant effect on the government securities markets (e.g. a presidential assassination, a national state of emergency). Markets should stay "live" for all other events/economic numbers including Fed Daily Open Market Operations, and Fed coupon passes and bill passes.

This Trading Practice Guideline is a recommendation only and is intended for member firms of The Bond Market Association in order to promote the smooth functioning of the market for government securities. The recommendation does not and should not restrict the flexibility of counterparties to negotiate the specific terms of any particular transaction or of a firm to go or not go "subject" when it believes such action is appropriate.

The following paragraph supersedes item 2 in its entirety under Section E entitled "Trading Guidelines" in Chapter 4 of The Bond Market Association's Government Securities Manual)

2. Subject Markets

Markets should go "subject" only for discount rate changes, significant Fed Open Market Operations, and any other major event that is anticipated to have a significant effect on the government securities markets. For all other regular events (including Fed Daily Open Market Operations, Fed Coupon Passes, Fed Passes, and the release of economic numbers), the markets should stay "live."