

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 10205]
November 20, 1987]

LIMITATION ON SIZE OF FEDWIRE TRANSACTIONS

Supplement to Operating Circular No. 21A, Effective January 14, 1988

*To All Depository Institutions in the Second
Federal Reserve District, and Others Concerned:*

In July 1987 the Board of Governors of the Federal Reserve System issued an interim policy statement on reducing risks on large dollar transfer systems, pending reevaluation of the Board's risk reduction program (see Circular No. 10184, dated August 13, 1987). As part of this interim policy, a \$50 million maximum transaction size limitation was imposed on the par value of book-entry Fedwire securities transfers, effective January 14, 1988. The limitation applies to *all* secondary market Fedwire book-entry transfers of securities of the Treasury, Federal and federally sponsored agencies, and international organizations conducted over Fedwire, including transactions with the Federal Reserve's Open Market Desk. Fedwire book-entry transactions with par amounts greater than \$50 million that are received for processing by this Bank will be rejected back to the originating depository institution.

Exceptions to the new policy include transactions with the Reserve Banks acting as fiscal agent, *e.g.*, deliveries of new issues, redemptions, requests to change the form of a security, or to move a security to or from a pledge account on a Reserve Bank's books.

The Board of Governors also stated in its interim policy statement that it would work with the Public Securities Association (PSA) to establish market practices and policies consistent with the intent of this policy modification. In this connection, the PSA has approved a Good Delivery Guideline for the Maximum Transfer Size Limit, the text of which is printed on the reverse side of this circular.

Enclosed is a copy of the Second Supplement, effective January 14, 1988, to our Operating Circular No. 21A, which reflects this action.

Questions on this matter may be directed to Patricia Hilt-Lupack, Manager, Securities Transfer Department (Tel. No. 212-720-5379).

E. GERALD CORRIGAN,
President.

(OVER)

PSA GOOD DELIVERY GUIDELINE FOR THE MAXIMUM TRANSFER SIZE LIMIT

On July 24, 1987 the Federal Reserve Board adopted an interim policy statement on reducing payments system risk. The statement includes a \$50 million limit on secondary market transfers of book-entry securities on Fedwire, which will become effective on January 14, 1988. To help implement this limit, PSA recommends the following good delivery guideline:

For secondary market transactions involving book-entry Fedwire transfers greater than or equal to \$50 million par value, delivering parties must deliver and receiving parties must accept deliveries in amounts equal to \$50 million par value. For such transactions not wholly divisible by \$50 million par value, the remainder can be delivered without regard to sequence. Comparisons and/or confirmations should correspond to the par value amounts delivered under this guideline. "Free" transactions conducted directly with the Federal Reserve Banks as fiscal agent such as requests to strip, reconstitute or convert securities from one form to another are exempt from this guideline. Original issue and redemption transfers from Federal Reserve Banks are exempt from this guideline. Transactions with the Federal Reserve Bank of New York's Open Market Desk are subject to this guideline.

Under the good delivery guideline, dealers would be able to transfer lots in any order. For example, where a counterparty purchases \$105 million of securities transferred on Fedwire from a dealer, the dealer would deliver two lots of \$50 million each and one lot of \$5 million. If the dealer only delivered the \$5 million lot, the counterparty would have to accept and pay for it. Each of these three transfers would constitute a separate good delivery, regardless of the order in which it occurred.

The PSA good delivery rule applies to the par value of all securities and transfers subject to the transfer size limit, including Treasury securities, FNMAs, FHLMCs and delivery repurchase transactions where the securities are transferred over Fedwire. It does not apply to original issue and redemption transfers from Federal Reserve Banks, as these are not secondary market transactions. The PSA good delivery rule will become effective on the same date as the maximum transfer size limit.

**FEDERAL RESERVE BANK
OF NEW YORK**

[Second Supplement to
Operating Circular No. 21A
Effective January 14, 1988]

**ON-LINE TRANSACTIONS IN
BOOK-ENTRY SECURITIES
\$50 Million Transaction Limitation**

*To All Depository Institutions in the Second
Federal Reserve District, and Others Concerned:*

In order to reflect, in Operating Circular No. 21A, the Fedwire transaction size limitation announced in Circular No. 10205, dated November 20, 1987, that operating circular is amended, effective January 14, 1988, by adding the following subparagraph to paragraph 8:

8. Transfers are not authorized:

* * *

(c) if the par value of the security exceeds \$50 million. This limitation does not apply to (i) original issue deliveries of book-entry securities from this Bank to depository institutions or (ii) transactions sent to or from this Bank in its capacity as fiscal agent of the United States, of Federal or federally sponsored agencies, or of international organizations. Thus, requests to strip or reconstitute Treasury securities, or to convert bearer or registered securities to or from book-entry form, are exempt from this limitation. Also exempt are pledges of securities to this Bank as principal (*e.g.*, discount window collateral) or as agent (*e.g.*, Treasury Tax and Loan collateral).

E. GERALD CORRIGAN,
President.