



STAFF REPORT

THE OBAMA ADMINISTRATION'S DEBT CEILING SUBTERFUGE: SUBPOENAED DOCUMENTS REVEAL TREASURY MISLED PUBLIC IN ATTEMPT TO "MAXIMIZE PRESSURE ON CONGRESS"

COMMITTEE ON FINANCIAL SERVICES, U.S. HOUSE OF REPRESENTATIVES

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SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

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This report has not been officially adopted by the Committee on Financial Services and may not necessarily reflect the view of its Members.

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Executive Summary

In late 2013, the Committee on Financial Services (Committee) initiated a review of the Obama Administration's contingency planning in the event that the debt ceiling is not raised. The Committee's efforts to obtain relevant documents from the Department of the Treasury (Treasury) and the Federal Reserve Bank of New York (New York Fed) were met with non-compliance, necessitating the issuance of subpoenas to both agencies. Almost two years after its initial inquiries, the Committee finally obtained copies of internal records of the New York Fed showing that Treasury has not been forthright with Congress or the American people concerning the Administration's debt ceiling contingency planning. Specifically, these documents show that:

- Treasury is capable of prioritizing principal and interest payments on the debt and the New York Fed has been running "tabletop" debt ceiling exercises regarding these sorts of contingencies since at least March 2011.
- Treasury has sought to withhold from Congress and the American people information about the Administration's contingency plans, for the purpose of pressuring Congress to acquiesce to the Administration's position that any increase in the debt ceiling not be accompanied by spending constraints.
- Contrary to Treasury's testimony before Congress that the Administration has never made any decision to prioritize debt payments, internal New York Fed documents reveal that Treasury was planning to prioritize payments during the debt limit impasses of 2013.
- Internal New York Fed documents reveal that both New York Fed and Federal Reserve Board employees objected to Treasury's efforts to conceal the Administration's contingency plans because concealing this vital information added unnecessary risk to an already volatile situation.
- Treasury appears to have actively obstructed the Committee's investigation of this matter by directing the New York Fed to withhold information from the Committee for approximately two years.

The Committee is releasing this report to allow the American people and holders of U.S. Treasury debt to make informed judgments on this important issue.

The Obama Administration's Debt Ceiling Subterfuge: Subpoenaed Documents Reveal Treasury Misled Public in Attempt to "Maximize Pressure on Congress"

Background

The debt limit or debt ceiling is a legislative limit set by Congress that restricts Treasury from issuing new debt or borrowing beyond that limit. The Constitution authorizes Congress to spend, tax, and borrow,¹ and Congress imposes a limit on debt that may be issued while entrusting Treasury with the details.² The total federal debt includes all debt held by the public, that is, borrowing from outside the federal government, which includes foreign governments, the Federal Reserve, foreign central banks, and private non-government investors. It also consists of "intragovernmental debt," or debt owed by one part of the government to another, which includes, for instance, the Social Security trust funds.³

While Treasury issues debt, the Federal Reserve System acts as the banker for the government. Each of the Reserve Banks, including the New York Fed, sells, services and redeems Treasury securities. Also, the New York Fed manages electronic funds transfer (EFT) systems that allow electronically originated credits and debits to be cleared quickly.⁴ One such system in particular, Fedwire, was developed by the Federal Reserve System to transfer large-dollar payments among depository institutions and other government agencies. Fedwire and the other EFT systems managed by the New York Fed are a vital part of the "plumbing" of the U.S. financial system, clearing and settling over \$4 trillion worth of transactions daily.⁵

Ensuring that the government is able to borrow money is important to securing continuous operations of federal programs. If the debt limit were reached, the government would not be able to pay all of its outstanding obligations. The limit may prevent Treasury from issuing new debt to help fund certain government accounts, such as the Social Security trust funds. Arguably, if the limit were reached, Treasury would be in a difficult position: it has a duty to pay obligations and invest trust fund surpluses, but it also would not be able to issue more debt and raise capital to pay the government's obligations and make investments into the trust funds in the first place.⁶ To reduce the impact on financial

¹ U.S. Const. art. I, § 8, cl. 1 ("The Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises . . ."); *id.* cl. 2 ("The Congress shall have Power . . . To borrow Money on the credit of the United States . . .").

² The debt limit is codified in 31 U.S.C. § 3101.

³ See *Intragovernmental Holdings and Debt Held by the Public*, BUREAU OF THE FISCAL SERVICE, available at https://www.treasurydirect.gov/govt/charts/principal/principal_govpub.htm (last accessed Jan. 3, 2016).

⁴ See *About the New York Fed: Wholesale Product Office*, FEDERAL RESERVE BANK OF NEW YORK (last accessed Jan. 3, 2016), available at http://www.newyorkfed.org/aboutthefed/org_wholesale.html. Although each Reserve Bank uses EFT systems, the New York Fed, through its Wholesale Product Office, is responsible for managing the systems on behalf of the Fed.

⁵ *Id.* A large number of payments also are cleared through private clearing houses such as the Clearing House Interbank System.

⁶ See generally, 31 U.S.C. §§ 3321 *et seq.*

markets in the event the debt ceiling is reached, it has been argued that the Administration could prioritize principal and interest payments on the debt over other government obligations⁷—a proposition that the Obama Administration has aggressively attempted to refute.⁸

As of January 4, 2016, the total outstanding debt is 18.900933 trillion.⁹ Because of the recently-signed Bipartisan Budget Act of 2015, the Administration can borrow freely—without being subject to any debt ceiling—until March 15, 2017.¹⁰

Treasury Department Representations Concerning the Prioritization of Debt Payments in the Event the Debt Ceiling Is Not Raised

Rather than assure the American people that the Administration would—or even could—prioritize principal and interest payments on the government’s debt in the event that the debt ceiling is not raised in order to maintain the creditworthiness of the United States, Treasury has chosen instead to issue a series of public statements casting doubt on the Administration’s ability and willingness to prioritize these payments.

Representation 1: Debt Payment Prioritization Is Infeasible

During the debt ceiling negotiations of 2011, then-Treasury Deputy Secretary Neal Wolin made the following public statement on the Treasury Notes Blog webpage:

Secretary Geithner made clear that any default on legal debt obligations of the U.S. would be unthinkable. In response, Members of Congress of both parties have indicated agreement that the United States must honor its obligations. Treasury disagrees with suggestions by some that Congress could somehow evade this responsibility by passing legislation to “prioritize”

⁷ See, e.g., Steven Hess, *United States Government Shutdown and Debt Limit: Answers to Frequently Asked Questions*, MOODY’S INVESTORS SERVICE (Oct. 7, 2013), available at <http://rokita.house.gov/sites/rokita.house.gov/files/Moodys%20Report.pdf> (“We believe the government would continue to pay interest and principal on its debt even in the event the debt limit is not raised, leaving its creditworthiness intact.”); US Economics Analyst, Issue No. 13/40, *The Debt Limit: How, When, and What If*, THE GOLDMAN SACHS GROUP, INC. (Oct. 5, 2013), available at <http://pdfserver.amlaw.com/cc/US%20Economics%20Analyst%20-%20October%205%202013.pdf> (“In the event that the Treasury lacks adequate cash to make all of its scheduled payments, technical complexities and legal uncertainties might prevent a full prioritization of all payments. However, we do believe that the Treasury could ensure that enough cash was available to make interest payments on Treasury securities.”).

⁸ See e.g., *infra* notes 11 and 14.

⁹ See Bureau of the Fiscal Service, *Daily Treasury Statement* (Jan. 4, 2016), available at <https://www.fms.treas.gov/fmsweb/viewDTSFiles?dir=w&fname=16010400.pdf>. The current level of federal debt can be found in Table III-C of the *Daily Treasury Statements*, which are available at <http://fms.treas.gov/dts/index.html>.

¹⁰ See Bipartisan Budget Act § 901 (2015). See also Rebecca Shabad, *President Obama signs 2-year budget deal*, CBS NEWS (Nov. 2, 2015), available at <http://www.cbsnews.com/news/president-obama-signs-2-year-budget-deal/>.

payments on the national debt above other legal obligations of the United States. While well-intentioned, *this idea is unworkable*.¹¹

Deputy Secretary Wolin's statement created the misleading impression that prioritizing principal and interest payments on the debt—as has been suggested by Moody's, Goldman Sachs, and others¹²—is infeasible as a proposition and, therefore, is not an option available to the Administration in the event the debt ceiling is not raised.¹³

Secretary Lew's testimony before the Senate Finance Committee on October 10, 2013, reiterated Deputy Secretary Wolin's suggestion that prioritizing payments is an infeasible course of action:

Chairman BAUCUS: Thank you, Mr. Secretary. I would like to focus a little bit on a concept that some suggest as a way out of this problem and which some suggest is feasible, and I disagree with. It is called prioritization. You touched on it.

...

Just walk us through the prioritization difficulties, please. . . . How do you reprogram computers?

Secretary LEW: Well, Mr. Chairman, I have to tell you, *I do not believe there is a way to pick and choose on a broad basis. The system was not designed to be turned off selectively. So anyone who thinks that it can be done just does not know the architecture of our multiple payment systems, which are very complex. They were designed properly to pay our bills. They were not designed to not pay our bills.*

Chairman BAUCUS: In short, prioritization just does not work.

Secretary LEW: I think prioritization is just default by another name. It is just saying that we will default on some subset of our obligations. But we are still—by definition, if we do not have enough money to pay all of our bills, we will be in default on our obligations.

...

Senator TOOMEY: . . . [A]s the Secretary of the Treasury, are you prepared to assure us, but, more importantly, the millions of Americans who are investors in U.S. Treasury securities and the entire American economy,

¹¹ See e.g., Neal Wolin, *Treasury: Proposals to "Prioritize" Payments on U.S. Debt Not Workable; Would Not Prevent Default*, DEPARTMENT OF THE TREASURY (Jan. 21, 2011) (emphasis added), available at <http://www.treasury.gov/connect/blog/Pages/Proposals-to-Prioritize-Payments-on-US-Debt-Not-Workable-Would-Not-Prevent-Default.aspx>.

¹² See, e.g., *supra* note 7.

¹³ Because of Treasury's misleading statements and refusal to assure the American people of the Administration's ability to prioritize debt payments on the debt, many members of Congress, including the Democratic Members of the House Ways and Means Committee, have been led to believe that the Administration may not be able to prioritize payments on the debt. See e.g., Democratic Members of the House Committee on Ways and Means, *Experts agree: Prioritization is "default by another name,"* (Sept. 9, 2015), available at <http://democrats.waysandmeans.house.gov/blog/experts-agree-prioritization-%E2%80%9Cdefault-another-name%E2%80%9D>.

that under no circumstances will you permit a missed payment on a U.S. Treasury security obligation?

Secretary LEW: Senator, the only way to make sure we could pay all of our obligations is for Congress to act and raise the debt limit. No President has ever had to decide whether to pay some bills and not others.

Senator TOOMEY: I understand. That is a different question, though.

Secretary LEW: The law is complicated, and I am not the one who makes that decision, as you know. I think that if you look----

Senator TOOMEY: You would make the decision.

Secretary LEW: No, no. It is actually not my decision. It is something that the President would have to decide. And I am telling you that it would put us into default if we went to a place where we could pay one bill and not others. What would you say to people on Social Security who are not getting paid?

Senator TOOMEY: Mr. Secretary, I have acknowledged that it is very disruptive and that is not where I hope to go, but I only control one vote in the Senate and the administration controls zero, and they control zero votes in the House. So it would seem to me the only appropriate thing to do is plan for a contingency. So are you telling me that the President would decide to ensure that we would not miss a payment on Treasury securities?

Secretary LEW: Senator, what I am telling you is there is no good solution if Congress fails to raise the debt limit, and that is why the President has called on Congress to raise the debt limit.

...

Senator TOOMEY: And I certainly hope that the President will work with us so that we can avoid this, but, frankly, I am shocked that the Secretary of the Treasury will not assure the financial markets, American investors and savers, and the millions of people who hold Treasuries, that they do not have to worry about the security of their Treasuries. I am extremely disappointed.

Secretary LEW: I would refer you back to statements by President Reagan and Secretary Jim Baker, who made the same warnings that I am making, because only Congress can act to raise the debt limit. No President has ever been put in the position of having to figure out what bad option they choose if Congress does not act.

Senator TOOMEY: I understand. I am almost out of time. On Tuesday, the President said, and I quote, "We plan for every contingency. So, obviously, you know, worst case scenario, there are things we will try to do," end quote. Could you tell us about these contingencies?

Secretary LEW: Senator, the options are all bad.

Senator TOOMEY: I agree.

Secretary LEW: I tried to, earlier, describe how complicated the Federal payment system is. *There is no way to make our Federal payment system work well to pick and choose what we pay.* So we are going to be in a place which is uncharted territory, and anyone who thinks it works smoothly--it would not work smoothly.

Senator TOOMEY: Nobody said this would be smooth.

Secretary LEW: *It would not work smoothly. It would be chaos.*

Senator TOOMEY: The question is whether the Treasury is prepared to try to minimize the disruption.

Secretary LEW: Obviously, we have looked at many options. There have been reports indicating things that have been looked at over the years. Nobody has ever had to put any of these into effect. They are not tested.¹⁴

May 7, 2014 Letter to Chairman Hensarling: Treasury Appears to Backtrack from Statements Implying that Prioritization is Infeasible

Because Secretary Lew's testimony before the Senate Finance Committee on October 10, 2013, called into question the Administration's ability to prioritize payments in the event the debt were reached, the Committee sent Treasury a letter on December 6, 2013, requesting information pertaining to the New York Fed's Fedwire securities payment system and the Administration's debt ceiling contingency plans, including all records in Treasury's custody and control "relating to any plan for whether or how to continue making principal and interest payments on Treasury debt if the nation's borrowing limit is not raised."¹⁵

In a letter dated March 14, 2014, more than *three months* after the Committee's initial request, Treasury's Assistant Secretary for Legislative Affairs Alastair Fitzpayne advised the Committee that prioritizing debt payments was "unworkable," but failed to produce any of the documents requested by the Committee.¹⁶ The Committee renewed its request for documents on March 25, 2014, informing Treasury that continued failure to produce the records voluntarily would result in issuance of a subpoena to compel their production.¹⁷ On April 8, 2014, Treasury provided the Committee with a substantively incomplete production of records pertaining to one of the Committee's December 6, 2013, information requests, consisting primarily of news updates and summaries of Congressional hearings concerning the debt ceiling that Treasury and New York Fed employees e-mailed one another.¹⁸ In addition, Treasury's letter advised the Committee that Treasury was "working to identify and review" documents pertaining to the Administration's debt ceiling contingency plans.¹⁹

With over four months having elapsed since its initial request, the Committee sent Treasury a letter on April 25, 2014, advising that "the Committee will soon notice a business meeting to take place on May 7, 2014, for the purposes of authorizing subpoenas to compel the production of any withheld records and the testimony of witnesses with

¹⁴ *The Debt Limit: Hearing Before the S. Comm. on Finance*, 113th Cong. (October 10, 2013) (emphasis added), available at <http://www.gpo.gov/fdsys/pkg/CHRG-113shrg88306/pdf/CHRG-113shrg88306.pdf>.

¹⁵ See Appendix 31.

¹⁶ See Appendix 27. Rather than comply with the Committee's request, Treasury merely produced to the Committee an August 2012 letter that the Council of Inspectors General on Financial Oversight wrote in response to an inquiry from Senator Orrin Hatch.

¹⁷ See Appendix 33.

¹⁸ See Appendix 6.

¹⁹ *Id.*

knowledge pertinent to the matters under investigation by the Committee.”²⁰ On May 7, 2014, the day on which the Committee was scheduled to authorize subpoenas and the day before Secretary Lew was scheduled to testify before the Committee at a statutorily required hearing on international financial matters, Treasury advised the Committee that it was “now in a position to make additional responsive documents available to the Committee, including sensitive materials related to the operation of the Fedwire Securities System.”²¹ Treasury’s letter acknowledged what Secretary Lew’s previous Congressional testimony had sought to obscure: that the Administration was “technologically capable” of prioritizing payments on the debt.²²

Representation 2: The Administration Has Never Made a Decision to Prioritize Debt Payments in the Event that the Debt Ceiling Were Not Raised

During his appearance before the Committee on May 8, 2014, Secretary Lew indicated at least twice in an exchange with Representative Mick Mulvaney that, while technologically capable of doing so, Treasury has never made a decision to prioritize principal and interest payments in the event the debt ceiling were not raised:

Mr. MULVANEY: I want to follow up on Mr. McHenry’s questioning regarding the letter that you sent last night regarding prioritization of payments. And I think you said to him that while it was technologically possible to prioritize payments, that it would still constitute default because Social Security checks wouldn’t go out, contracts wouldn’t be fulfilled, et cetera. Is that an accurate representation of your testimony to Mr. McHenry?

Secretary LEW: It is close.

Mr. MULVANEY: That is fine. How do you define “default?”

Secretary LEW: I think when the Government of the United States fails to meet its obligations, it is in default of whatever obligation it has failed to meet.

Mr. MULVANEY: So to you it means more than just not paying principal or interest on debt?

Secretary LEW: Correct.

Mr. MULVANEY: And it is your understanding, then, based on your letter of last night, that if the Treasury has sufficient funds, it will be able to make principal and interest payments on debt?

Secretary LEW: No. All I said last night is that a check-writing system could work. It is not my decision to choose what to pay and what--

Mr. MULVANEY: No, that is not what you said last night. You said that the New York Fed’s systems would be technologically capable of continuing to make principal and interest payments--

²⁰ See Appendix 25.

²¹ See Appendix 24.

²² *Id.*; see also Tim Reid, “Treasury says debt payments could be prioritized in default scenario,” REUTERS (May 9, 2014) (noting that in a letter to the Committee on May 7, 2014, “[t]he Treasury Department has admitted for the first time that the government is technically capable of prioritizing payments”), available at <http://www.reuters.com/article/2014/05/09/us-usa-treasury-debt-idUSBREA480R520140509>.

Secretary LEW: Technologically capable.

Mr. MULVANEY: --while Treasury was not making other kinds of payments. And my question to you is, if the Treasury is making payments on principal and interest but not making other payments, is that default, in your mind?

Secretary LEW: Congressman, first of all, you did not accurately restate my letter because it does not--

Mr. MULVANEY: Actually, I read it word for word.

Secretary LEW: But you are leaving out the words "technologically capable." *It does not say that the payments will be made; it is not my decision. Only the President of the United States can decide whether or not to do that.*

Mr. MULVANEY: Did you tell anybody outside of Treasury--

Secretary LEW: --and that decision has never been made by a President of either party.

Mr. MULVANEY: Did you tell anyone outside of Treasury--did you tell anyone who owns any debt of the United States of America that their principal and interest payments could technologically be paid--were capable of being paid--in the event the debt ceiling was not--

Secretary LEW: *The question that I was asked and answered on many occasions was has a decision been made, and I answered "no."*

Mr. MULVANEY: But the question you are being asked now, sir, is did you tell anybody else on Wall Street, anybody who owns any debt, that they were capable of being paid in the event the debt ceiling did not get raised?

Secretary LEW: I can't speak for all conversations that might have happened. I am not aware of any conversation I--

Mr. MULVANEY: I am not asking about all--I am asking about your conversations.

Secretary LEW: I am not aware of any conversation--

Mr. MULVANEY: Did you ever tell Morgan Stanley they were going to get paid? Did you ever tell Bank of America they were going to get paid?

Secretary LEW: I have no recollection of any conversation that I had with any party.

Mr. MULVANEY: Do you have any recollection of having any conversation with any Wall Street firms regarding prioritization of payments?

Secretary LEW: Look, I had many conversations where people asked what the decision was and I have said to them what I have said here.

Mr. MULVANEY: I am not asking about the decision; I am asking you about the capability. The letter last night said it was technologically capable of making the payments. Who else knew that?

Secretary LEW: Congressman, the--

Mr. MULVANEY: When did you know that they were technologically capable of making the payments?

Secretary LEW: The question of whether or not we make payments is the-

Mr. MULVANEY: I am not asking that. Mr. Lew, when did you know the payments could be made?

Secretary LEW: Congressman, I would have to check; I don't recall the date. But the issue is--and I don't know why anyone would want to be in a place where the United States--

Mr. MULVANEY: But that is not my question, sir. My question is not why we would want to know; the question is, why did your testimony change?

Secretary LEW: My testimony did not--

Mr. MULVANEY: And who else did you tell? Who were you telling--

Secretary LEW: Congressman, my testimony didn't change.

Mr. MULVANEY: --back in October that they were going to be paid when you were on national television telling people we were going to default? That is my question.

Secretary LEW: Because you asked me my definition of default, it is the same today as it was then. If the United States of America fails to pay--

Mr. MULVANEY: So if we ask you on television next time if debt-holders will be paid, you will say "yes?"

Secretary LEW: No Congress has ever put the United States in a position where it couldn't pay its bills, and no Congress--

Mr. MULVANEY: But next time the debt ceiling becomes an issue and people ask you, "Will debt holders be paid," will you say yes? My time is up. Thank you, Mr. Chairman.²³

Every time Secretary Lew has been asked about the debt ceiling in Congressional testimony over the past two and a half years, he has offered the same refrain: raising the debt limit is the only conceivable solution and any suggestion that the Administration should—or even could—prioritize principal and interest payments on the debt in the event the debt ceiling is not raised should not be taken seriously. Because of the oversight efforts of this Committee, Treasury eventually was forced to concede the point that prioritizing debt payments is technologically feasible. Rather than advise Congress about the Administration's debt ceiling contingency planning, however, Treasury chose obfuscation and misdirection, insisting that the Administration never made a decision to prioritize debt payments during the debt ceiling standoff of 2013.²⁴

²³ *The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System: Hearing Before the H. Comm. on Fin. Services*, 113th Cong. (May 8, 2014) (emphasis added), available at <http://www.gpo.gov/fdsys/pkg/CHRG-113hhr88540/pdf/CHRG-113hhr88540.pdf>.

²⁴ Secretary's Lew's misleading testimony before the Committee on May 8, 2014, echoes statements in then-Treasury Assistant Secretary Alastair Fitzpayne's March 14, 2014, letter to Chairman Hensarling, in which he represented that, "With respect to proposals to prioritize certain payments over others, the idea of 'prioritization' has been rejected by every President and Secretary of the Treasury who has considered it. It is unwise, unworkable, unacceptably risky, and unfair to the American people." See Appendix 27. Former Assistant Secretary Fitzpayne reinforced this canard in his letter of May 7, 2014, the day before Secretary Lew testified before the Committee, stating that "We stress that no decision regarding what to do in such a situation was made during the recent debt limit impasses, and potential responses have not been tested." See Appendix 24.

Committee Findings

Notwithstanding Secretary Lew's Congressional testimony that prioritization is an infeasible proposition not meriting the Administration's serious consideration, internal New York Fed documents obtained by the Committee reveal a very different story.

Treasury Has Not Been Forthright About the Administration's Capabilities and Plans Concerning the Prioritization of Debt Payments

At the same time that Treasury was insisting to Congress and the American people that prioritization is unworkable,²⁵ Treasury and New York Fed officials were working behind the scenes on a prioritization plan.²⁶ For example, an internal New York Fed document entitled "Notes for Briefing for Governor Powell" dated September 30, 2013, indicates that New York Fed staff were "preparing for two scenarios related to Treasury hitting the debt ceiling."²⁷ Specifically, the New York Fed contemplated servicing the debt but not making other payments.²⁸ Likewise, records show that the Administration has been preparing debt ceiling contingency plans and running "tabletop exercises" since at least 2011 that take into account various payment prioritization scenarios, including the prioritization of social security, veterans' benefits, and principal and interest payments over other government obligations.²⁹ Moreover, during the 2011 debt limit standoff, "in consultation with Treasury," the New York Fed considered a scenario where it would decide to invoke "special debt ceiling crisis procedures."³⁰

The New York Fed took this situation very seriously, believing that reaching the debt ceiling was a "plausible scenario."³¹ In fact, in preparation for the 2013 debt ceiling discussions, the New York Fed ran another tabletop exercise on April 9, 2013, that considered a scenario where Congress passes legislation "mandating that SSI, veterans benefits and P&I payments be prioritized over all other government obligations," and where the Secretary of the Treasury [would] meet with the Fed Chairman . . . and agree that the Federal Reserve should pursue actions to honor and settle [these] payments."³² Thus, in contrast to the testimony of Treasury officials implying that such plans would be "unworkable" and therefore unthinkable in a debt-ceiling event, it is clear from internal New York Fed records that the Administration viewed these plans in a very different light and had seriously considered prioritizing payments during the debt ceiling standoff of 2013.

²⁵ See *supra* notes 23-24.

²⁶ See *e.g.*, Appendices 1-5, 7-9.

²⁷ See Appendix 1 at 25.

²⁸ See *id.*

²⁹ See *e.g.*, Appendices 1-3.

³⁰ Appendix 2 at 31. In this March 16, 2011, Tabletop Exercise, the New York Fed considered a hypothetical situation on May 31, 2011, where "Congress passes and the President signs legislation mandating that SSI, veterans benefits and P&I payments be prioritized over all other government obligations." *Id.* at 44.

³¹ See Appendix 2 at 31.

³² Appendix 3 at 56.

Indeed, not only do internal New York Fed records show that the Administration is capable of prioritizing principal and interest payments, but these documents reveal that the Administration was in fact planning to prioritize debt payments in the event the debt ceiling were not raised during the impasses of 2013 in order to protect the creditworthiness of the United States.³³ For example, a draft e-mail listing points discussed at a debt ceiling meeting on October 7, 2013, for review by New York Fed President Bill Dudley, indicates that Treasury would prioritize payments and that the New York Fed would not need “to do contingency planning for rolling a security with delayed principal payments.”³⁴ In fact, an internal e-mail from an official in the New York Fed’s Financial Institution Supervision Group indicates that Treasury had made a decision to prioritize debt payments as early as September 17, 2013:

*Treasury is adamant they will make P&I payments. Not considering possibility of missing debt payments.*³⁵

This position was reiterated in another internal New York Fed e-mail sent on September 20, 2013, stating that:

*Treasury continues to be adamant that they will make principal and interest payments on the debt. This is a slightly different position than prior exercises where prioritization of debt payments was not specified. (This stance is subject to change.)*³⁶

Likewise, in an internal e-mail sent on September 23, 2013, a New York Fed official advised her colleagues that “[a]s you may have heard, unlike the 2011 planning around prioritizing payments and rolling maturities, the *Treasury has said they will make all P&I payments* this time around.”³⁷ Similarly, in an e-mail dated September 24, 2013, a New York Fed counsel and vice president indicated that “Treasury has assured us” that the possibility of delayed or unpaid principal and interest payments on the debt “will never happen.”³⁸

³³ See Appendices 10-19.

³⁴ Appendix 10 at 194. *See also id.* (“Again, Treasury intends to prioritize P&I. However, it is important to continue to stress that if there is a significant risk of not being able to pay P&I the following day, it will be important to make the decision early.”).

³⁵ See Appendix 17 at 224 (emphasis added).

³⁶ Appendix 14 at 212 (emphasis added).

³⁷ Appendix 11 at 197 (emphasis added).

³⁸ Appendix 19 at 232. In addition, handwritten notes from New York Fed staff in attendance at meetings regarding the debt limit on or around October 8, 2013, also indicate that “Treasury will prioritize” and that the focus will be on “protecting P&I.” Appendix 12 at 200. However, despite Treasury’s reassurances that the Administration would prioritize principal and interest payments on the debt, the New York Fed continued to take prudent steps to plan for contingencies, and on September 27, 2013, a Senior Vice President from the Fedwire Security Service sent an e-mail stating that although “Treasury has directed the Reserve Banks that they intend to make P&I payments,” staff at the New York Fed nonetheless drafted “very detailed contingency procedures” which included “broadcast messages, if ultimately asked to delay End-of-Day, roll the dates, delay P&I payments, or not make P&I payments.” Appendix 13 at 210.

Secretary Lew Misled Congress about the Administration’s Debt Ceiling Contingency Plans

As detailed above, internal New York Fed documents indicate that the Administration contemplated and eventually decided to prioritize principal and interest payments in the event that the debt ceiling were not raised—and the New York Fed was planning accordingly.³⁹ Secretary Lew misled Congress when he testified that the Administration had never decided to prioritize debt payments if the debt ceiling were not raised. In fact, Treasury was “adamant” as early as 2013 that the New York Fed should make such payments.⁴⁰ Secretary Lew’s later testimony that the Administration had never “decided” to prioritize debt payments because such authority resided in the President, and not the Treasury Secretary, presented Congress with an incomplete and inaccurate picture of events. Treasury’s clear insistence to the New York Fed that the Administration would prioritize principal and interest payments on the debt strongly suggests that it had or would have obtained the President’s approval to execute its contingency planning if necessary. Moreover, despite misleading the Committee more than a year ago on this matter of crucial importance to U.S. and global financial markets, neither the Secretary nor any of his staff at Treasury has made any effort to date to correct the Congressional record.

Treasury Withheld the Administration’s Debt Ceiling Contingency Plans from the American People “to Maximize Pressure on Congress” to Acquiesce to the Administration’s Position in the Debt Ceiling Negotiations

Internal New York Fed records reveal that Treasury has been attempting to restrict communications concerning its prioritization plans for the express purpose of creating market uncertainty in an effort to pressure Congress to acquiesce in the Administration’s “no negotiation” posture on the debt ceiling.⁴¹ For example in a particularly telling e-mail describing the discussions that took place at a briefing concerning the debt ceiling with Federal Reserve Governor Jerome H. Powell, a New York Fed counsel and vice president advised the General Counsel of the New York Fed that Governor Powell informed those present at the briefing that “Treasury wants to maximize pressure on Congress by limiting communications about contingency planning.”⁴²

The Federal Reserve Bank of New York and the Federal Reserve Board Objected to Treasury’s Efforts to Conceal the Administration’s Contingency Plans, Calling Treasury’s Approach “Crazy, Counter-Productive”

Internal New York Fed records show that both the New York Fed and the Federal Reserve Board had grave concerns with Treasury’s political decision not to inform the

³⁹ See e.g., Appendices 1, 10-19.

⁴⁰ See e.g., Appendix 14 at 212; Appendix 17 at 224; Appendix 19 at 232.

⁴¹ See Appendix 1; see also e.g., Appendices 10-18 for examples of New York Fed internally describing Treasury’s “close hold” on information concerning the Administration’s plans pertaining to the prioritization of debt payments.

⁴² Appendix 1.

public of the Administration's debt ceiling contingency plans.⁴³ Specifically, these records indicate that Federal Reserve Board staff "strongly encouraged Treasury to reveal its plan in advance" so that the private sector could adequately prepare itself for a debt ceiling event, but Treasury was "very reluctant" to do so.⁴⁴ New York Fed staff internally described Treasury's "close hold" approach as "crazy, counter-productive, and add[ing] risk to an already risky situation."⁴⁵ Thus, rather than choosing the responsible course of action advocated by the Federal Reserve to ensure that the private sector was as prepared as possible for a debt ceiling event, Treasury opted instead to conceal its contingency planning from Congress and the public to advance the Administration's political ends.

Treasury Appears to Have Actively Obstructed the Committee's Investigation of the Administration's Debt Ceiling Contingency Plans

1. *Treasury apparently directed the New York Fed not to answer valid Congressional oversight inquiries because Treasury knew the answers would expose the dishonesty of the Administration's public statements.*

The Committee has sent the New York Fed no less than six letters and a subpoena since November 6, 2013, demanding records related to Treasury's contingency plans in the event the debt ceiling were not raised.⁴⁶ In response, the New York Fed has sent the Committee six letters indicating that because Treasury had declined to authorize the New York Fed to produce the requested records to the Committee, the New York Fed believed it was not permitted to comply with the Committee's information requests.⁴⁷

Internal New York Fed records also show that New York Fed staff believed that they were prohibited from answering valid Congressional inquiries concerning the Administration's debt ceiling contingency plans because Treasury had not authorized them to do so.⁴⁸ For example, in response to Committee staff's questions about how the Fedwire system works, a New York Fed employee indicated to Committee staff that, "Based on the context of your question, the Federal Reserve, as a fiscal agent, is not authorized to speak on behalf of what Treasury may or may not do."⁴⁹ After dismissing this legitimate Congressional inquiry, New York Fed employees then internally discussed how they were

⁴³ See, e.g., Appendix 20 at 236 ("Treasury has been very reluctant to provide any information to the private sector regarding its plans. Board staff has strongly encouraged Treasury to reveal its plans in advance to allow the private sector to prepare sufficiently."); Appendix 21 at 240 (noting that the New York Fed "was advised against making any updates/changes" to its debt limit procedures given Treasury's direction not to discuss the Administration's contingency plans concerning delayed principal and interest payments); Appendix 22 at 243 (noting that Treasury deleted a New York Fed employee's description of the Fedwire Securities procedures and that Treasury's "close hold" on the Administration's debt ceiling contingency plans "is crazy, counter-productive, and adds risk to an already risky situation.").

⁴⁴ See Appendix 20.

⁴⁵ See Appendix 22.

⁴⁶ See Appendices 45-48, 38, 42.

⁴⁷ See Appendices 28-30, 35, 40, 43.

⁴⁸ See Appendix 23.

⁴⁹ *Id.*

not “at liberty” to “speak generically with a Congressional staffer about how Fedwire Securities works, given that his questions are in the context of what we will do if the debt ceiling is reached.”⁵⁰

In light of what the internal New York Fed documents indicate, it is now obvious why Treasury fought so hard to prevent their production to the Committee: Treasury knew that the documents would expose the disingenuousness of its public statements and the political gamesmanship at the heart of its strategy for pressuring Congress to accept a “clean” extension of the debt ceiling.

2. Treasury has failed to comply with the Committee’s subpoena and information requests pertaining to the Administration’s debt ceiling contingency plans

In six letters sent between December 6, 2013, and March 10, 2015, the Committee requested that Treasury produce records to allow the Committee to assess the Administrations’ debt limit contingency plans.⁵¹ After a subpoena was threatened in April 2014,⁵² Treasury reluctantly allowed the Committee to view certain documents that were not completely responsive to the Committee’s requests and, in any event, refused to let the Committee keep the documents after the review was complete. Treasury’s actions constituted a refusal without valid justification to voluntarily provide the Committee with all records on its behalf and on behalf of the New York Fed.

Accordingly, given Treasury’s failure to comply with the Committee’s information requests concerning the Administration’s debt ceiling contingency plans, the Committee subpoenaed both the Treasury and the New York Fed on May 11, 2015, to compel the production of these long-requested records. In its May 26, 2015, response letter to the Committee’s subpoena, the New York Fed noted that “Treasury has advised us that Treasury is working with the Committee to respond to the Subpoena, and will be addressing the Subpoena on behalf of both the Treasury (the fiscal principal) and the New York Fed (the fiscal agent).”⁵³ Treasury likewise informed the Committee on May 26, 2015, that “we have advised the New York Fed that Treasury will continue to address the Committee’s requests to Treasury and the New York Fed for information” regarding the debt limit.⁵⁴

Three months later, Treasury had failed to produce even a single subpoenaed record pertaining to the debt ceiling to the Committee on behalf of either itself or the New York Fed. On August 27, 2015, the Committee sent both the Treasury and the New York Fed a letter demanding compliance with the Committee’s subpoena and requesting transcribed interviews with relevant Treasury and New York Fed staff to explain why the Committee had not received any of the subpoenaed records.⁵⁵ Rather than agreeing to make the requested officials available for transcribed interviews with Committee staff, on September

⁵⁰ *Id.*

⁵¹ See Appendices, 31-33, 25-26, 34.

⁵² See Appendix 25.

⁵³ See Appendix 35.

⁵⁴ See Appendix 36.

⁵⁵ See Appendices 37-38.

3, 2015, Treasury and the New York Fed notified the Committee that Treasury would soon be producing records responsive to the Committee's subpoena on behalf of both Treasury and the New York Fed.⁵⁶ On September 4, 2015, Treasury delivered to the Committee a restricted-access electronic document, which was read-only and did not permit searching or printing, containing 2,250 pages of records pertaining to the debt limit.

Because Treasury's production was both markedly incomplete and produced to the Committee in a format that seemed clearly designed to prevent a meaningful review of the materials, the Committee sent letters to Treasury and the New York Fed on September 14, 2015, and September 17, 2015, respectively, demanding full compliance with the Committee's subpoena and again asking for transcribed interviews of New York Fed employees.⁵⁷ On September 24, 2015—the day that the New York Fed was required to indicate whether it would make the requested employees available for transcribed interviews with Committee staff—the New York Fed advised the Committee of its understanding that "Treasury intends to produce, no later than Monday, September 28, 2015, all of the documents that the New York Fed determined to be responsive to the Subpoena."⁵⁸ On September 29, 2015, Treasury confirmed that it would soon provide the Committee with "all documents identified by the New York Fed as responsive to your requests," and eventually delivered to the Committee another restricted-access electronic document containing 3,878 pages of records.⁵⁹

These two restricted access documents were unusual, not only for their choice of format, but also because the entirety of the first set of 2,250 pages of records were again contained in the second set of 3,878 pages.⁶⁰ A comparison of these two restricted-access

⁵⁶ See Appendices 39-40.

⁵⁷ See Appendices 41-42.

⁵⁸ See Appendix 43.

⁵⁹ See Appendix 44; Secretary Lew wrote a letter to Speaker John Boehner on October 1, 2015, to inform Congress and the public that the nation would soon reach the debt limit sooner than anticipated. See Letter from Jack Lew, Sec'y, Dep't of the Treasury, to John Boehner, Speaker, U.S. House of Representatives (Oct. 1, 2015), available at <http://www.treasury.gov/connect/blog/Pages/Treasury-Sends-October-Debt-Limit-Letter-to-Congress.aspx>; see also Kristina Peterson and Nick Timiraos, *Debt-Ceiling Deadline Puts New Pressure on Boehner*, THE WALL STREET JOURNAL (Oct. 2, 2015), available at <http://www.wsj.com/articles/debt-ceiling-deadline-puts-new-pressure-on-boehner-1443827007>.

⁶⁰ The format of the records that Treasury provided is also notable in that the Committee's subpoena requested that records be produced in their original electronic format, which is the standard for document productions in litigation and for investigations by government regulators. The two electronic documents Treasury provided would not have met this standard even if the access restrictions were removed. The documents Treasury provided took hundreds if not thousands of original e-mails from the New York Fed, put them in a printed format, and combined them into one large PDF.

The New York Fed has the tools to produce documents in the requested electronic format; the New York Fed indicated as much in a December 4, 2014, letter sent in response to the Committee's November 17, 2014, inquiry into what tools the New York Fed had to collect and produce electronically stored information in response to a Congressional request or subpoena. Treasury, however, did not respond to the Committee's letter seeking the same information.

electronic documents is telling. Based on the Committee’s review, it appears that the first set of records are a subset of the second set that were physically printed, re-ordered, re-scanned, and then given new document identifier numbers. Furthermore, certain records in the first restricted-access electronic document are broken into individual pages and scattered throughout the entire document. The logical inference is that Treasury had all of the 3,878 pages of records in its possession when it only delivered 2,250, and that Treasury removed the records crucial to the Committee’s investigation from its first production. Treasury has failed to provide the Committee with an adequate explanation as to why the second production of 3,878 pages again contain the previously delivered 2,250 pages, but in a new order and with new document identification numbers.⁶¹

Moreover, virtually all of the records from Treasury’s second production, including all of the records revealing important details about the Administration’s contingency planning, are internal New York Fed documents. The internal Treasury records included in Treasury’s second production, on the other hand, are markedly incomplete, consisting primarily of news articles and Congressional Research Service and Government Accountability Office reports related to the debt limit that Treasury employees e-mailed one another.

Treasury’s actions to date appear to constitute obstruction of the Committee’s legitimate oversight and investigation efforts.

The Administration Owes ~~t~~ to ~~h~~ YAmerican People to be Honest and Transparent about Its Debt Ceiling Contingency Plans

While it may be in the Administration’s strategic political interest to keep its extensive debt ceiling contingency plans secret, the Administration nevertheless has an obligation to share this important information with the American people. The records disclosed in this report—which the Committee was able to obtain only after almost two years of persistent effort and through the exercise of Congress’s compulsory powers—call into question the credibility of senior Administration officials (including the Secretary of the Treasury) on matters of great importance to the U.S. economy and global financial markets. As America is set to approach yet another moment of truth on its fiscal future in or around March 2017, and inevitably on many occasions thereafter if the Nation does not address its unsustainable spending, the findings of this report will serve to inform a national debate that is based upon facts, not scare tactics and political brinksmanship.

⁶¹ The only explanation Treasury offered in its letter of September 29, 2015, for reorganizing and reproducing the previously provided materials to the Committee in this perplexing manner was “[f]or ease of review” and “[t]o avoid confusion.” See Appendix 44.

APPENDICES

Appendix 1

Notes for Briefing for Governor Powell (September 30, 2013)

From: [REDACTED]
Sent: Tuesday, October 01, 2013 10:56 AM
To: Baxter, Thomas
Cc: Heller, Stephanie
Subject: FW: Powell briefing -FRSONLY-
Attachments: Debt Ceiling Update Monday Sept.docx

Follow Up Flag: Follow up
Flag Status: Completed

Stephanie asked that I pass this along to you...just let me know if you need any more color.

From [REDACTED]
Sent: Monday, September 30, 2013 6:23 PM
To: Bergin, James P
Subject: Powell briefing -FRSONLY-

RESTRICTED FR

Hi Jim: The briefing ran over by about 20 mins, but basically went as expected...we covered each of the agenda items, and Powell was pretty engaged and asked a lot of questions. As I expected, the topics of overdraft scenarios and the impacts to government payment processing got very brief coverage, although Board staff did say that Treasury may not be fully aware of our extreme aversion to overdrafts, so it would be helpful for senior Treasury people to hear that message directly from Powell. Two interesting comments from Powell: (1) he doesn't seem terribly concerned that they have no statutory authority to prioritize P&I, because he thinks that any aggrieved party that gets other payments late would already have been paid by the time they could file a lawsuit; and (2) he understands why Treasury wants to maximize pressure on Congress by limiting communications about contingency planning, and for that reason he seemed less inclined to consider extraordinary measures to ease market impact (creating special lending facilities, etc.)...which seems to line up with the view that Bill expressed last week. No real discussion of the "tabletop" idea...reading between the lines, I think Board staff doesn't want to risk annoying Treasury with too much advance planning. Just my two cents, others might have had different take-aways.

[REDACTED]
Counsel & Vice President
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045
T: [REDACTED]
F: [REDACTED]

Notes for Briefing for Governor Powell

Monday, September 30, 2013 4pm

1. Current projections: **Board**
2. Reserve Bank Payments, Processing, Preparations: **RBOPs**
3. Supervisory actions: **BS&R**
4. Open Market Operations and DW policies and procedures: **Lorie Logan and Josh Frost**
 - a. Staff preparing for two scenarios related to Treasury hitting the debt ceiling
 - i. Treasury prioritizes such that it services the debt but does not make other payments
 - ii. Treasury unable to prioritize and delay of coupon and/or interest occurs
 1. Under this scenario there are two outcomes for which we are preparing
 - a. Treasury makes decision in time to roll forward maturity debt such that securities with missed principle can continue to trade
 - b. Treasury does not make decision to roll forward and securities are frozen on Fedwire
 - b. Recommendations related to current Desk activities under scenario 2b
 - i. Accept securities with delayed P and/or I with current haircuts for collateral for securities lending and reverse repos
 - ii. Accept securities with delayed Interest payments in large scale asset purchases
 - c. Recommendations related to potential actions under market stress under scenario i or ii
 - i. Conduct RPs if Fed Funds rate threatens to move outside the range
 - ii. Seek authority from Chairman for RPs if GC Treasury repo moves above 25 even without Fed funds (new authorization from January); need to determine level
 - iii. Potentially seek Committee authorization to increase RRP individual bid limit if Treasury GC threatens to go negative
 - d. More extraordinary activities to address market stress
 - i. Reduce DW rate if broader liquidity becomes stressed / see if we could lower DW rate just for Treasury collateral
 - ii. Establish RP facility at equivalent rate for OMO collateral
 - e. Current open issues
 - i. Timing of communications related to current open market operations and DW
 - ii. Pricing procedures for open market operations and DW
5. TMPG and other market preparations: **Lorie Logan and Josh Frost**
 - a. TMPG and SIFMA discussing contingency preparations and further along than 2011 given TMPG minutes outline for one path if there is delayed P or I
 - b. SIFMA working toward playbook and communications strategy but likely needs further encouragement
 - i. Communications to broader market outside ops group at SIFMA
 - c. Some open issues
 - i. Timing of TMPG minutes
 - ii. Timeline for FedWire if possibility of delayed P or I emerges (e.g., how late can FedWire stay open and readiness at firms for late close or rebatch)

- iii. Pricing vendor readiness and understood procedures
- iv. Treasury of securities with delayed P or I in GC or GCF
- v. Fails policy for securities with delayed P or I
- vi. Understanding of Fed activities that may alter behavior as date nears

6. Treasury Markets/Market Impact: **Fabio Natalucci** ([REDACTED] and [REDACTED])

- a. Treasury cash market and US sovereign CDS
- b. Money market conditions, particularly Treasury repo
- c. Money fund flows
- d. Other potential risks and flows to monitor

7. Discount Window Preparations: **Lyle**

8. Other: **Group**

- a. Communications (FRBNY may want to add i and ii below)
 - i. to the market about DW, supervisory and Desk operations
 - ii. internal – conduct broad table top for three scenarios
 - 1. prioritize P&I
 - 2. delayed P&I rolling over P
 - 3. delayed P&I P frozen
- b. Money Funds
- c. Other Fed actions (FRBNY may want to add i below)
 - i. Fiscal Agent buyback operations

Appendix 2

2011 Debt Ceiling Tabletop Exercise (March 16, 2011)

From: [REDACTED]
Sent: Friday, September 27, 2013 9:55 AM
To: [REDACTED]
Subject: FW: Treasury DC (Tabletop Exercise, Securities Timeline & Procedures)

From: Narron, James
Sent: Monday, April 08, 2013 5:02 PM
To: [REDACTED]
Subject: Fw: Treasury DC (Tabletop Exercise, Securities Timeline & Procedures)

James D. Narron
Senior Vice President
Federal Reserve Bank of New York
[REDACTED]

----- Forwarded by James Narron/NY/FRS on 04/08/2013 05:01 PM -----

From: [REDACTED]/NY/FRS
To: James Narron/NY/FRS@FRS [REDACTED]/NY/FRS@FRS,
Cc: [REDACTED]/NY/FRS@FRS
Date: 04/08/2013 03:52 PM
Subject: Treasury DC (Tabletop Exercise, Securities Timeline & Procedures)



RESTRICTED FR



Debt Ceiling Crisis -
Tabletop...



Fedwire Funds
Securities_Del...



WPO Debt Ceiling
Securities Pr...

[REDACTED]
Wholesale Product Office
Federal Reserve Bank of New York
[REDACTED]



TRSO

TREASURY RELATIONS AND SUPPORT OFFICE

Debt Ceiling Tabletop Exercise

March 16, 2011

Internal FR

1

Topics

- Exercise Overview
- Stage 1 - 10:00 – 10:30 a.m. ET Conference Call
- Stage 2 - Notification & Communication Activities
- Stage 3 - 11:00 a.m. – 1:30 p.m. ET Conference Call
- Core Scenario
- Injects

Exercise Overview

- Exercise will simulate activities that take place on the morning of June 1, 2011
- Exercise will take place in three stages starting at 10:00 a.m. ET and concluding at 1:30 p.m. ET
- A contrived, yet plausible scenario was developed that required the Federal Reserve, in consultation with Treasury, to decide to invoke its special debt ceiling crisis procedures on the evening of May 31, 2011
- Federal Reserve Banks pend settlement of government payments starting on June 1, 2011

Internal FR

Slide 3

Stage 1 – Conference Call

10:00 – 10:30 a.m. ET

- Stage 1 conference call convenes
Bridge [REDACTED] *PHONE NO. and CODE*
- Participants include: OFAS, BPD, FMS, NY Corporate, NY Markets, BOG RBOPS, BOG Monetary Affairs, CASH TRACK, TRSO, and Audit
(see roster of participants/observers)
- Call will simulate the “day two” 9:00 a.m. conference call where the TGA cash position and estimates of the day’s receipts and payments are discussed
- Scenario and injects are discussed. Additional direction may be derived
- Outcome – Affirm decision from the “day one” 8:00 p.m. conference call to pend settlement of government payments

Internal FR

Slide 4

Stage 2 – Notification & Communication Activities

10:30 – 11:00 a.m. ET

- TRSO sends notification to exercise participants
- TRSO simulates notification of affected FRS business lines and payment functions
- TRSO simulates notification of System stakeholders
- CRSO simulates internal and external communication activities
- BOG simulates internal and external communication activities

Internal FR

Slide 5

Stage 3 — Conference Call

11:00 a.m – 1:30 p.m. ET

- Stage 3 conference call convenes

Bridge

PHONE NO. and CODE

- Participants include:

Auction, CA\$HLINK, ASAP, CASH TRACK, CRSO, ETA & CCC, FedACH, Legal, IAS, ITS, NY Corporate, NY Markets, PAM, SCRIM, SVC, Treasury Check/Check 21/POMO, Treasury Retail Securities, TT&L, WPO – Fedwire Funds and Securities, Board of Governors, BPD, FMS, OFAS, Audit, TRSO

(see roster of participants/observers)

- TRSO will review the core scenario & injects and discuss any additional guidance that was obtained during the stage 1 call
- CRSO will discuss internal/external notifications and communications
- BOG will discuss Board-level notifications and communications

Internal FR

Slide 6

Stage 3 — Conference Call

Reserve Bank Business Line Walkthrough

- Each business line will walk through their debt ceiling crisis procedures and describe at a high-level the actions their business would take and their capability to perform the actions
- Business lines will also discuss their ability to track and report on pending Treasury payments and their ability to settle payments once there are sufficient funds in the TGA to cover the oldest day's payments
- Business lines will also discuss their ability to respond to each of the injects (if the injects would occur)
- After each business line completes their discussion, other participants will be asked to provide feedback

Stage 3

- **Business Line Walkthrough Order:**
 - **FedACH**
 - **Check**
 - **Fedwire Funds**
 - **Fedwire Securities**
 - **ITS**
 - **SVC**
 - **TT&L**
 - **Treasury Retail Securities (LTD & Savings Bonds)**
 - **ETA and CCC**
 - **ASAP**
 - **Auction**
 - **SCRM**
 - **IAS**
 - **CA\$HLINK**

Internal FR

Slide 8

Core Scenario

May 31, 2011 @ 9:00 a.m. ET

- The TGA opened the day with a balance of \$5.987 billion
- Outstanding public debt is within \$25 million of the maximum statutory debt limit of \$14.294 trillion
- The federal government is operating under a continuing resolution to fund operations through June 5, 2011
- The House, Senate, and White House appear to be on the verge of a compromise to approve appropriation bills to fund the government through the end of the FY 2011 and raise the statutory debt limit by \$500 billion. The legislation is expected to be passed by the Congress and signed into law by the President at noon ET
- Starting in mid-May, Treasury reduced auctions of new marketable securities, reduced sales of new nonmarketable debt, and stopped TT&L retainer processing. More recently, Treasury started conducting same-day “rollover” auctions to fund scheduled redemptions. Treasury also suspended the issuance of State and Local Government securities

Internal FR

Slide 9

Core Scenario

May 31, 2011 @ 9:00 a.m. ET (continued)

- Treasury also invoked and has exhausted other extraordinary measures at their disposal to keep the outstanding public debt below the ceiling and maintain a positive balance in the TGA. The measures provided additional funds of \$150 billion that were used to cover the shortfall between receipts and expenditures
- During the 9:00 a.m. ET CASH TRACK call, it is estimated that \$18.4 billion in government payments will settle on 5/31/2011 and receipts will be \$13.0 billion, resulting in a net change in the operating cash balance of -\$5.4 billion. Treasury decided to:
 - Continue the stop on TT&L retainer processing
 - Conduct a same-day settlement “rollover” auction at 10 a.m. ET to cover \$58.4 billion in securities that were scheduled to be redeemed on 5/31/2011
 - Conduct a same-day settlement auction at 1:00 p.m. ET for \$25 billion in short-term cash management bills if the Congress approves the debt limit increase legislation and the President signs the legislation into law as is expected to happen at noon ET

Internal FR

Slide 10

Core Scenario

May 31, 2011 @ noon ET

- House and Senate leadership hold a press conference to announce that the conference committee has hit an impasse and the legislation to fund the government and raise the debt limit may not be passed until later in the week
- Treasury decides to cancel the same-day settlement auction that was planned for 1:00 p.m. ET to offer \$25 billion in short-term cash management bills
- Treasury issues a press release announcing that they believe that they have sufficient funds to settle all payments for the current day (May 31, 2011). Treasury also includes a statement in the press release noting that settlement may need to be stopped for government payments scheduled to settle on or after June 1, 2011. Treasury noted that the payments include military pay, veterans benefit payments and social security supplemental payments

Internal FR

Slide 11

Core Scenario

May 31, 2011 8:00 p.m. ET

- CASHLINK end of day processing completed and the TGA ended the day in an overdraft position of -\$1.2 billion
- It is determined that two DFAS offices issued several larger than expected payments earlier in the day that settled via Fedwire Funds. The payments totaled \$1.8 billion
- The NY Corporate EVP convenes the 8:00 p.m. ET conference call with Treasury, NY Markets, BOG RBOPS, BOG Monetary Affairs (MA), and TRSO. The following is determined:
 - An “inadvertent” overdraft of the TGA occurred
 - Absent passage of legislation to raise the debt limit, Treasury has exhausted its means to inject additional funds into the TGA
 - An estimated \$63.9 billion in government payments will settle on 6/1/2011 and receipts will be \$20.1 billion, resulting in a net change in the operating cash balance of -\$43.8 billion
- Approval is received from the Secretary of the Treasury and the Fed Chairman to invoke the Federal Reserve Debt Ceiling Crisis procedures and pend settlement of government payments on June 1, 2011

Internal FR

Slide 12

Core Scenario

May 31, 2011 8:30 – 10:00 p.m. ET

- At 8:30 p.m. ET, the TRSO posts a message about the decision to the recorded status line and sends an email to the affected FRS business lines and payment functions directing them to institute their debt ceiling crisis procedures and pend settlement of government payments starting on June 1, 2011. The Financial Services Council and the First Vice Presidents are copied on the email
- The TRSO opens a conference call at 9:00 p.m. ET with Treasury, BOG, and the CRSO to brief the FRS business lines and payment functions on the decision to invoke the debt ceiling crisis procedures (and to answer any questions participants may have)

Core Scenario

June 1, 2011 – June 3, 2011

- Congress continues to work on legislation to fund the government through the end of the FY 2011 and raise the statutory debt limit. Congressional leaders expect the legislation to be completed over the weekend
- Reserve Banks continue to operate under the debt ceiling crisis procedures
- On the evening of June 2, 2011, it is determined that Treasury has sufficient funds in the TGA to cover payments that were pended on June 1. Approval is received from the Secretary of the Treasury and the Fed Chairman to settle the pended June 1st payments on June 3rd

Internal FR

Slide 14

Core Scenario

June 5, 2011 & June 6, 2011

- At 1:00 p.m. ET on Sunday June 5, 2011, Congress passes and the President signs legislation to fund the government through the end of the FY 2011 and raise the statutory debt limit by \$500 billion
- At 2:00 p.m. ET on Sunday June 5, 2011, the NY Corporate EVP convenes a conference call with Treasury, NY Markets, BOG RBOPS, BOG Monetary Affairs, and TRSO
 - Approval is received from the Secretary of the Treasury and the Fed Chairman to rescind the Federal Reserve Debt Ceiling Crisis procedures and settle government payments on June 6, 2011
- At 9:00 a.m. ET on Monday June 6, 2011, Treasury announces and conducts a same-day settlement auction for \$75 billion in short-term cash management bills

Injects

Inject #1

- At 11:00 a.m. ET on June 1, 2011, Congress passes and the President signs legislation mandating that SSI, veterans benefits and P&I payments be prioritized over all other government obligations
- The President and the Secretary of the Treasury meet with the Fed Chairman at noon ET and agree that the Federal Reserve should pursue actions to honor and settle SSI, veterans benefit, and P&I payments

Injects

Inject #2

- At 1:00 a.m. ET on June 2, 2011, Congress passes and the President signs legislation that temporarily raises the statutory debt limit by \$50 billion
- At 9:00 a.m. ET on June 2, 2011, Treasury announces and conducts a same-day settlement auction for \$50 billion in short-term cash management bills

Injects

Inject #3

- At noon ET on June 2, 2011, Congress passes and the President signs legislation that temporarily raises the statutory debt limit by \$50 billion
- At 1:00 p.m. ET on June 2, 2011, Treasury announces and conducts a same-day settlement auction for \$50 billion in short-term cash management bills

Appendix 3

2013 Debt Ceiling Tabletop Exercise (April 9, 2013)

From: [REDACTED]
Sent: Friday, September 27, 2013 9:56 AM
To: [REDACTED]
Subject: FW: Tabletop exercise materials

From: Hilt, Pat
Sent: Tuesday, April 09, 2013 11:56 AM
To: [REDACTED]
Subject: Fw: Tabletop exercise materials

RESTRICTED FR

Pat Hilt
Vice President
International Treasury Services Function
Federal Reserve Bank of New York

[REDACTED] (primary)
[REDACTED] (mobile)
[REDACTED]

Visit the New York Fed at: <http://www.newyorkfed.org>

----- Forwarded by Pat Hilt/NY/FRS on 04/09/2013 11:55 AM -----

From: [REDACTED]/STLS/FRS
To: [REDACTED]/NY/FRS@FRS, [REDACTED]@atl.frb.org, [REDACTED]/STLS/FRS@FRS, [REDACTED]
[REDACTED]/CHI/FRS@FRS, david.monroe [REDACTED], [REDACTED]/CO/FMS@FMS, Gavin
Jackson/PM/FMS@FMS, James L Huang/STLS/FRS@FRS, James Narron/NY/FRS@FRS [REDACTED]
[REDACTED]/PM/FMS@FMS, Kathy O Paese/STLS/FRS@FRS, [REDACTED]/NY/FRS@FRS,
louise.roseman [REDACTED], [REDACTED]/RICH/FRS@FRS, [REDACTED]/STLS/FRS@FRS, Pat
Hilt/NY/FRS@FRS, Richard Bauder/PM/FMS@FMS, Richard Dzina/NY/FRS@FRS, Seth B
Carpenter/BOARD/FRS@BOARD, sheryl.morrow [REDACTED], [REDACTED]@frb.gov@smtp.frb.gov,
[REDACTED]@bos.frb.org, [REDACTED]/NY/FRS@FRS,
Cc: Roy Hendin/STLS/FRS@FRS, [REDACTED]/STLS/FRS@FRS
Date: 04/08/2013 09:50 PM
Subject: Tabletop exercise materials



ATTACHMENT IS CLASSIFIED INTERNAL FR and PRE-DECISIONAL AND DELIBERATIVE - FOR INTERNAL
TREASURY AND FRS USE ONLY

Attached is the roster of participants and slide deck for the tabletop exercise on April 9, from noon to 3:00 p.m. ET.



Debt Ceiling Table
Top Exercis...



Debt Ceiling Crisis -
Tabletop...

[REDACTED] - Treasury Officer
Treasury Relations and Support Office
Federal Reserve Bank of St Louis

[REDACTED]
[REDACTED] cell



TRSO

TREASURY RELATIONS AND SUPPORT OFFICE

Internal FR

2013 Debt Ceiling Tabletop Exercise

April 9, 2013

Noon – 3:00 p.m. ET

PREDECISIONAL AND DELIBERATIVE – FOR INTERNAL TREASURY AND FRS USE ONLY

Topics

- Participant information
- Exercise Objectives
- Exercise Overview
- Core Scenario
 - Treasury/FRS Decision Call on the day prior to Treasury reaching the debt limit
 - Scenario and injects will be discussed. Additional direction may be derived from Treasury
 - Outcome – determine FRS operational impact
- Business Line Walk Through
- Injects & Questions

Participant Information

- Exercise window: Noon – 3:00 p.m. ET
- Conference Bridge
Bridg [REDACTED] Cod [REDACTED]
- Participants include: OFAS, Fiscal Service, BOG MA and RBOPS, NY Markets, CASH TRACK, CRSO, RPO, WPO, ASAP, ITS, SVC and TRSO (see roster of participants/observers)

Exercise Objectives

Identify gaps in business line preparation activities that might require additional discussion and/or decisions by stakeholders if Treasury must control the flow of government payments to the FRS

- Updates to business line and/or Treasury procedures for processing of government payments by FRS
- Authorizations
- Special communications

Exercise Overview

- Core scenario introduced
- Reserve Bank Business Line walk through
 - WPO, RPO, ASAP, ITS, and SVC walk through the impact to their area and applicable debt ceiling procedures and describe at a high-level the actions their business would take and their capability to perform the actions
 - Treasury provides input and feedback
 - After each business line completes their discussion, other participants will be asked to provide feedback
- Injects and questions introduced

Exercise Overview & Assumptions

- D day = debt ceiling is reached. For the purposes of this exercise, D-Day is the 1st of the month. D +/- # indicates # of days prior to or after the day the debt ceiling is reached.
- Exercise will simulate the evening call (generally referred to as the 8:00 p.m. call) on D-1 between Treasury and FRS key stakeholders that could take place the evening before the debt ceiling becomes binding
- The Treasury has notified the Federal Reserve to let us know that they will be invoking their debt ceiling procedures for Treasury payments. Treasury may also ask the Fed to begin our special procedures for NTDO's.

Exercise Overview & Assumptions

A contrived scenario has been developed in which Treasury begins controlling the flow of payments

- At 11:00 a.m. ET D-day, Congress passes and the President signs legislation mandating that SSI, veterans benefits and P&I payments be prioritized over all other government obligations
- The President and the Secretary of the Treasury meet with the Fed Chairman at noon ET and agree that the Federal Reserve should pursue actions to honor and settle SSI, veterans benefit, and P&I payments
- There are not available funds to cover the payments due on D-Day - Assume the White House and Treasury have provided and approved direction for what payments should be processed prior to the 8:00 p.m. ET call on D-1
- Payment amounts are all fictitious

Core Scenario

D-1 @ 8:00 p.m. ET – Call convenes

- Today is Tuesday, the last day of the month
- The TGA closed the day with a balance of \$15.987 billion
- Outstanding public debt is within \$25 million of the maximum statutory debt limit of \$16.394 trillion
- Treasury invoked and has exhausted other extraordinary measures at their disposal to keep the outstanding public debt below the ceiling and maintain a positive balance in the TGA
- House and Senate leadership held a press conference @ 6 p.m. to announce the conference committee has hit an impasse and the legislation to fund the government and raise the debt limit may not be passed until sometime over the weekend

Core Scenario

D-1 @ 8:00 p.m. ET (continued)

- Treasury does not have sufficient funds available to cover all government payments for tomorrow (D-Day) the 1st day of the month and will begin controlling the flow of payments to the FRS
- Based on direction from the President, Treasury will pay only selected types of payments and withhold other government payments
- No principle and interest payments are due in the next 3 days
- Treasury notified financial institutions 10 days ago that the delivery of government ACH payments, which traditionally occurs 2-4 days in advance may be reduced to 1 day in advance of the payment date

Core Scenario

D-1 @ 8:00 p.m. ET (continued)

- Paper benefit checks for D-day, the 1st day of the month, were printed and delivered to the Post Office 5 days ago – these checks totaling \$1.2 billion are in the process of being delivered to benefit recipients
- White House and Treasury direction is to pay selected payment types
- FRS Treasury business line impact
 - ASAP - grant payments will not be processed
 - SVC - processing as normal
 - ITS - NTDO payments will not be processed
- Treasury has instructed the FRS to:
 - Initiate the FedACH Risk Service for NTDOs
 - Take Fedwire funds origination offline for the NTDOs

Core Scenario

D-1 9:00 – 10:00 p.m. ET

- CRSO and TRSO will carry out any required FRS communication related activities resulting from the Treasury/FRS Decision Call
 - Notification to the Financial Services Council and the First Vice Presidents that Treasury does not have sufficient funds to cover all of the following day's (D-Day) payments and will begin controlling the flow of government payments to the FRS. High level summary of impact to FRS processing is communicated.

Business Line Walk Through

- Order of business lines
 - WPO
 - RPO
 - ASAP
 - ITS
 - SVC
- Areas to consider...
 - What is impact to daily processing?
 - Are special authorizations/approvals needed? If so, are mechanism in place to obtain the approvals?
 - Who needs to be notified of the change to daily processing? Are the parties internal or external the FRS and Treasury?

Inject #1

Inject #1

- Fast forward to D+2 3rd day of the month, Friday. SSA benefit payments for the day are \$23.4B and federal payroll is \$3.1B.
- The balance in the TGA is \$15.1B
- The White House and Treasury have not authorized the prioritization of any payments.
- No payments will be made
- Impact to business lines?

Inject #2

Inject #2

- At 10:00 a.m. ET on D-Day, the House and Senate hold a press conference to announce that an agreement has been reached and legislation to fund the government and raise the debt limit by \$3.4 trillion has been passed
- At 11:00 a.m. ET on D-Day, Treasury resumes the flow of all government payments to the FRS and instructs the FRS to process SSI, veterans benefits and P&I payments received the same day.
- Impact to business lines?

Questions related to scenario

1. Have ACH files for settlement on D-day (1st of month) been sent to FIs (this normally occurs on D-4)? What about payments for D+2 (3rd of month)?
 - What impact does this have?
 - How much notification would FIs need if this schedule were to be reduced to D-1 or D-2?
2. Have benefit payment checks been printed and mailed?
 - If the schedule for printing checks and delivering to Post Office needs to change, what advance communication needs to occur and when?
3. Do any communications need to be sent to external parties prior to D-1, who is responsible? Treasury or FRS? What audience?

Exercise Overview

Questions?

Thank you for your participation!

TRSO Debt Ceiling Tabletop Exercise

April 9, 2013 Noon – 3:00 p.m. ET

Conference Bridge Phone No. and Code Cod Phone No. and Code

Roster of Participants

Area	Participants
OFAS	Sheryl Morrow, Dave Monroe
Bureau of the Fiscal Service	Dick Bauder, John Hill, Gavin Jackson and Donna Felmlee
WPO	Richard Dzina, Jim Narron and Gina Russo
RPO	Brian Egan
CRSO	Connie Thiein
CASH TRACK	James Huang, and Chris Pfeiffer
ASAP	Malissa Ladd
ITS	Pat Hilt and Brian Jack
SVC	Don Foucher
New York Markets	Lisa Stowe
Board of Governors - RBOPS	Louise Roseman and Susan Foley
Monetary Affairs	Seth Carpenter
TRSO	Kathy Paese, Matt Torbett and Patty Goessling
Audit (Observer)	Terri Kirchhofer
Legal (Observer)	Roy Hendin

Appendix 4

New York Fed Comments on 2011 Debt Ceiling Operating Circulars (October 18, 2013)

From: [REDACTED]
Sent: Friday, October 18, 2013 2:56 PM
To: [REDACTED]
Subject: FW: Debt Ceiling

2011 materials for Doomsday.

From [REDACTED]
Sent: Monday, February 20, 2012 1:04 PM
To: Hendin, Roy
Cc [REDACTED];
[REDACTED];
[REDACTED]@stls.frb.org [REDACTED];
[REDACTED] (BOARD); Heller, Stephanie [REDACTED];
[REDACTED]
Subject: Re: Debt Ceiling

Roy and other Fed TSLAG members (note that Treasury lawyers have been removed from the distribution for now):

Apologies for the delay in getting back to you all on this. In answer to the TRSO's question that Roy posed below, FRBNY Legal believes that it's important to preserve the concept of an operating circular regardless of the level of the Fed's involvement in a future debt ceiling scenario, because we believe that DIs will be seeking some level of guidance from the Reserve Banks no matter what Treasury may or may not announce. I've attached our comments to the "final" version of the circular, most of which are designed to clean up some of the hasty changes that were made last July, particularly in connection with some of the references to Treasury that were added last minute.

However, in addition to cleaning up this version of the circular, we think it's important to also preserve two earlier versions of the circular (attached) that were sent to the FSPC last July, the first sent on July 12 and approved (with delegation for further changes) on July 19, and the second sent on July 28, 2011, three days before the "final" version that was distributed on July 31. Each of those prior versions incorporates language that we might need to revert to in a future debt ceiling event should Treasury change its mind about the nature of the Fed's role. For example, the July 12 version includes carefully drafted language relating to the deferred settlement of ACH transactions, the suspension of P&I payments, and the valuation of matured but unredeemed Treasury securities posted as discount window collateral. As another example, the July 28 version includes language regarding the rejection of Fedwire Funds transfers and suspended settlement for Treasury checks and money orders. Some or all of this language may apply in the future should we wish to include it based on the circumstances prevailing at the time. Our hope is that we can put each of these documents "on the shelf" in a manner that preserves much of the work that went into our collective thinking on various scenarios, rather than just preserving the latest thinking.

Also, just as a general note regarding a future debt ceiling event, we should try to preserve some of the lessons learned about the timing of communications with the market...I think we all learned that there's significant value in communicating with certain market participants in advance of hitting the debt ceiling, and that such communication can avoid or mitigate some of the market disruptions that could result from uncertainty about how government payments will be handled. For example, before Treasury committed to paying P&I as scheduled in all cases, the FRBNY worked with Treasury and the TRSO to plan certain advance discussions with, and even drafted certain written materials for, the major clearing banks...it will be important in the future to closely coordinate with Treasury on these types of communications and try to provide as much advance clarity to the market as possible (but of course the specifics will depend on circumstances at the time).

Happy to discuss this approach, as well as any of the comments included on the latest version of the circular. Thanks very much for giving us the chance to comment on this.

[REDACTED]
Counsel and Assistant Vice President
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045

T [REDACTED]
F [REDACTED]



LEGALDOCS-#33...



July 28, 2011
Version.pdf



July 12, 2011
Version.pdf

From: Roy Hendin/STLS/FRS
To: [REDACTED]@chi.frb.org [REDACTED]@stls.frb.org [REDACTED]@sf.frb.org [REDACTED]@ny.frb.org,
[REDACTED]@frb.gov [REDACTED]@stls.frb.org [REDACTED]@rich.frb.org [REDACTED]@sf.frb.org,
[REDACTED]@stls.frb.org [REDACTED]@bos.frb.org [REDACTED]@mpls.frb.org,
[REDACTED]@bos.frb.org [REDACTED]@mpls.frb.org [REDACTED]@atl.frb.org,
[REDACTED]@dal.frb.org [REDACTED]@ny.frb.org [REDACTED]@phil.frb.org,
[REDACTED]@clev.frb.org [REDACTED]/RICH/FRS@FRS [REDACTED]@frit.frb.org [REDACTED]
[REDACTED]/RICH/FRS@FRS [REDACTED]/NY/FRS@FRS [REDACTED]/STLS/FRS@FRS [REDACTED]/KC-
LEGAL/KC/FRS@FRS
Cc: [REDACTED]/DAL/FRS@FRS [REDACTED] DAL/FRS@FRS, Michael.Collotta@[REDACTED],
Paul.Wolfeich [REDACTED]@fms.treas.gov [REDACTED]/CO/FMS@FMS,
[REDACTED]@stls.frb.org [REDACTED]@stls.frb.org
Date: 01/24/2012 02:25 PM
Subject: Debt Ceiling



RESTRICTED FR

Guys,

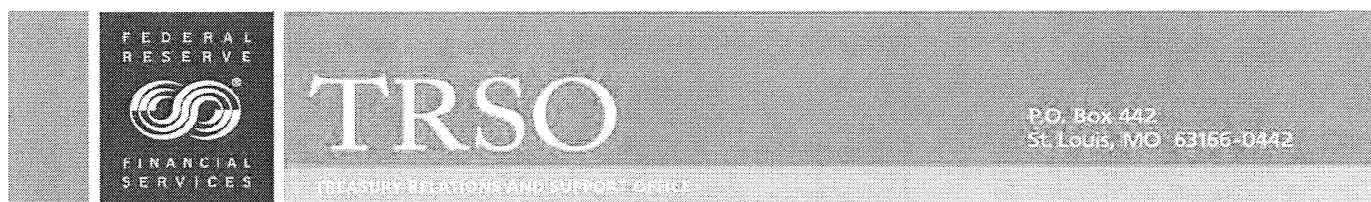
The TRSO has asked for our comments on the attached final version of the Debt Ceiling Operating Circular, essentially redrafted by a few major players within the Fed and Treasury during the last debt ceiling event (July-August, 2011). Recall that it was ultimately determined that the Fed would not stop or reverse government payments; rather, that Treasury would control the issuance of payments and ensure that a positive balance is maintained in the TGA.

In addition to whatever comments we have regarding the document, the TRSO would like to know whether we think an Operating Circular is even needed given that the Fed will be little involved if a debt ceiling event occurs.

I'd appreciate your comments, if any, by the end of the month (January 31). Thanks.

Roy Hendin, VP and Deputy GC
Federal Reserve Bank of St. Louis

[attachment "Debt Ceiling Special OC FINAL 073111 4 pm CT Restricted FR.docx" deleted by ██████████/NY/FRS]



July 12, 2011

To: Financial Services Policy Committee

From: David A. Sapenaro

Subject: FSPC Approval of Revised Special Debt Ceiling Operating Circular

Per the FSPC's "Guidelines for the Organization of the Financial Services Policy Committee of the Federal Reserve Banks" (Appendix A, Section IV C.), the Treasury Relations and Support Office (TRSO) is seeking FSPC approval, at the July 19, 2011 meeting, for a revised Special Debt Ceiling Operating Circular.

In December 2009, the FSPC approved, via notational vote, an operating circular that outlined how the Federal Reserve would handle government payments in the event of a debt ceiling crisis where the government has hit the statutory debt ceiling and must cease or throttle payments until an increase in the debt ceiling is enacted by Congress. As you know, that operating circular was never issued as Congress took action to increase the debt limit before government spending reached the limit.

In recent months, government debt levels have once again approached the debt limit and, as a result, the TRSO has worked closely with various System product offices, Board staff, and other System entities to update our operational plans for such a crisis. At the same time, Treasury has re-evaluated their internal plans for handling payments, and we have worked with them and others in the System to modify certain capabilities in our payment systems to reflect Treasury's revised approach. As a result of these discussions, minor modifications and clarifications to the operating circular were required and the attached document reflects the current thinking and approach agreed upon by the Federal Reserve and Treasury. The attached circular has been reviewed and vetted with legal representatives in the System.

As you know, the Treasury anticipates that it will exhaust its "tools" for remaining below the debt ceiling on August 2nd. As such, the Federal Reserve must have an approved debt ceiling operating circular prior to this date. It is important to note that we continue our discussions with Treasury on their plans for handling payments, and there remains a remote possibility that additional changes may be required to this operating circular in the coming weeks. If additional changes to the operating circular are required after it has been approved by the FSPC, I am requesting that the FSPC delegate authority to me as TRSO Product Director to make any last minute changes to the operating circular, working in conjunction with Louise Roseman and Board of Governors staff. I will advise the Committee in near-real time of any changes that are made.

Page 2
July 12, 2011

Finally, I wanted to ensure you were aware that the TRSO has been working closely with the Customer Relations and Support Office (CRSO) to develop a robust communications plan to issue this operating circular publicly, should that be necessary, and to arm key internal stakeholders with accurate and consistent talking points should they receive inquiries from financial institutions. We continue efforts with the CRSO to ensure any communications associated with the release of this circular are handled in an efficient and effective manner.

We appreciate your assistance in the review and approval of this circular. If you or any of the FSPC members have any questions on the attached document, please contact me ([REDACTED]) or Kathy Paese ([REDACTED]).

Attachment

Copy to: Louise Roseman
Gordon Werkema
Bill Barouski
Kathy Paese

[REDACTED]
[REDACTED]
[REDACTED]



RESTRICTED - FR
Federal Reserve Banks

Special Operating Circular No. 00
(Draft) July 8, 2011

Remove Restricted FR
designation prior to issuing

DATE TO BE UPDATED

**TREATMENT OF CERTAIN TRANSACTIONS
IN THE EVENT OF INSUFFICIENT FUNDS IN
THE TREASURY GENERAL ACCOUNT**

1.0 GENERAL

1.1 INTRODUCTION

This operating circular (“Circular”) sets forth the procedures that the Federal Reserve Banks are implementing because U.S. Treasury borrowings have reached the statutory debt limit. Until the U.S. Congress raises the debt ceiling to permit additional Treasury borrowing, projected Treasury receipts may not be sufficient to make all Treasury payments on all days. By issuing this Circular, this Bank is notifying institutions and others concerned that the provisions of this Circular are now in effect. This Circular shall cease to be effective as described in Section 1.3. Each Reserve Bank has issued a Circular identical to this one.

1.2 DEFINITIONS

For purposes of this Circular:

- (a) Board** means the Board of Governors of the Federal Reserve System.
- (b) Fedwire^{®1} Funds Service** means the real-time gross settlement system operated by the Federal Reserve Banks and governed by the Board’s Regulation J subpart B (12 CFR 210) and the Federal Reserve Banks’ Operating Circular 6.²

¹ “Fedwire” is a registered service mark of the Federal Reserve Banks.

² References to “Operating Circulars” throughout this Circular are to the operating circulars of the Federal Reserve Banks, which can be viewed at http://www.frb services.org/regulations/operating_circulars.html.

- (c) **Fedwire[®] Securities Service** means the electronic facility operated by the Reserve Banks for maintaining Securities Accounts and for effecting Transfers, as defined in the Federal Reserve Banks' Operating Circular 7.
- (d) **Fiscal Agency Check** means a check used to make a payment in connection with a United States security. The check is drawn upon a Reserve Bank and issued on behalf of the Treasury by the Reserve Bank in its capacity as fiscal agent of the United States, as defined in 31 CFR 355.2 .
- (e) **Institution** means a depository institution or other institution or entity, as defined in Operating Circular 5.
- (f) **Master Account** means the record of financial transactions that reflects the financial rights and obligations of an account holder and the Reserve Bank with respect to each other, where opening, intraday, and closing balances are determined, as defined in Operating Circular 1.
- (g) **Securities Account** means an account at a Reserve Bank containing Book Entry Securities, as defined in Operating Circular 7.
- (h) **Statement** means the daily statement of account that a Reserve Bank sends to each Institution that maintains a Master Account on the Reserve Bank's books.
- (i) **Suspension Period** means the period beginning on the date this Circular is issued or the date specified in this Circular, whichever is later, and continuing until the earlier of (1) the time this Reserve Bank notifies Institutions that the Suspension Period has ended, or (2) one business day after the effective date of the debt ceiling increase.
- (j) **Treasury Account** means the Treasury General Account maintained on the books of the Federal Reserve Bank of New York.
- (k) **Transfer** means the electronic movement over Fedwire of a par amount of Book Entry Securities, as defined in Operating Circular 7.

1.3 DURATION

The provisions of the Circular shall be in effect until the earlier of (1) the time this Reserve Bank notifies Institutions that the Suspension Period has ended, or (2) one business day after the effective date of the debt ceiling increase.

2.0 TREATMENT OF TRANSACTIONS THAT ARE PAID OUT OF THE TREASURY ACCOUNT

During the Suspension Period, a Reserve Bank will generally process, but not settle, any transactions that would result in a debit to the Treasury Account until the Reserve Banks, in consultation with the Treasury, project that there will be sufficient funds in the Treasury Account to settle all of that day's Treasury transactions. It is possible that in some exception situations, the Reserve Banks may settle certain transactions at the direction of Treasury if the Reserve Banks in consultation with Treasury project that the Treasury Account has funds sufficient for the settlement of those transactions. Most government payments are made by Automated Clearing House ("ACH") or check; in these instances Reserve Banks will first post credits reflecting the transactions to the account used by the Institution and, assuming there are not sufficient funds in the Treasury Account to settle that day's transactions, the Reserve Banks, in consultation with Treasury, will reverse the credit settlement. When the Reserve Banks suspend settlement of Treasury payments, Reserve Banks will post credits and reversals of ACH and check transactions to Institution accounts. Both credits and reversals will be reflected on the Institutions' Statements.

When the Reserve Banks subsequently settle suspended Treasury payments, the Institutions' Statements will reflect the resulting credits for the day of settlement. If the Reserve Banks suspend settlement of transactions for more than one day, the Reserve Banks will settle payments in chronological order by day, as funds become available.

Reserve Banks will continue to debit the Master Account of an Institution for transactions that result in a credit to the Treasury Account.

Institutions should generally continue to submit Treasury transactions to Reserve Banks during the Suspension Period, so that settlement of transactions that result in debits to the

Treasury Account can occur as soon as there are sufficient funds in the Treasury Account to settle that day's transactions in full.

Some transactions, such as Fedwire funds transfers originated by the Treasury, will be rejected instead of suspended because they settle in real time. A rejected transaction will not appear on the Statement for the date the transaction was rejected, but it will appear on the later date when the Fedwire payment is resubmitted and the transaction settles.

Each Institution should formulate its own policies and procedures for handling customer credits related to suspended Treasury payments. Questions concerning any of the procedures described in this Circular should be directed to the appropriate individuals listed in the appendix that accompanies this Circular.

3.0 GOVERNMENT DEBT

3.1 FEDWIRE SECURITIES SERVICES

At Treasury's direction, Treasury securities transactions will settle in accordance with normal practice. In the event that there are insufficient funds and any Treasury securities are not redeemed in accordance with normal practice, Reserve Banks will retain these matured, unredeemed Treasury securities on the Fedwire Securities Service and permit their transfer, either free or against payment between Securities Accounts held at the Federal Reserve Banks.

If the Reserve Banks in consultation with Treasury determine that the Treasury Account has insufficient funds to pay the matured securities, the Reserve Banks, for operational reasons, will roll forward the maturity date of maturing Treasury securities to the next business day. This process will continue until the Reserve Banks, in consultation with Treasury, determine that the Treasury has sufficient funds to cover redemption payments. This operational measure does not change the actual maturity date specified in the terms and conditions of the security.

During the Suspension Period, statements issued over the Fedwire Securities Service of Principal and Interest payments scheduled for the next business day should be treated as advisory until the payments are actually made.

At Treasury's direction, Reserve Banks will make interest payments due on each payment date that occurs during the Suspension Period if the Reserve Banks in consultation with Treasury determine that the Treasury Account has funds sufficient for the settlement of interest payment transactions. If the interest payments are delayed due to insufficient funds, when settlement for interest does occur, the Reserve Bank will make the interest payments to the Institution that held the security at the close of Fedwire Securities on the day prior to the date interest is paid. In the event that there are insufficient funds to redeem matured securities on the scheduled date, when settlement for principal does occur, the Reserve Bank will pay principal to the Institution that is holding matured, unredeemed Treasury Securities at the close of Fedwire Securities on the day prior to the first day that the Reserve Banks in consultation with Treasury determine that there are sufficient funds in the Treasury Account to pay principal on all unredeemed Treasury Securities.

This Circular governs Treasury Direct and Treasury securities, including STRIPS and CUBES, on the Fedwire Securities Service.

3.2 SAVINGS BONDS

During the Suspension Period, Reserve Bank savings bond processing sites will stop issuing new U.S. savings bonds. The Treasury Retail Securities sites will inform issuing agents (over-the-counter) to stop selling savings bonds until further notice. Agents should continue to submit reissue, replacement, and redemption transactions as usual.

Reserve Banks will accept and process redemption transactions, although settlement of these payments may be suspended. Specifically, redemptions settled by ACH credit transactions will be handled as described in Sections 4.1 of this Circular. Redemption transactions payable to an Institution's Master Account will be suspended if the Reserve

Banks, in consultation with Treasury determine that there are insufficient funds in the Treasury Account to settle all of that day's Treasury transactions. Paying agents may continue to redeem savings bonds and forward them through the normal collection process for credit, but credit may be suspended in accordance with Section 2.0 of this Circular.

Reserve Bank processing sites will continue to accept requests for adjustments, refunds, and redemptions, but will suspend debits to the Treasury Account and the offsetting credits, consistent with Section 2.0 of this Circular. Agent fee payments may be suspended.

3.3 TREASURY SECURITIES PLEDGED AS COLLATERAL

During the Suspension Period, matured, unredeemed Treasury securities may continue to serve as collateral for Reserve Bank extensions of credit.³ After the Suspension Period, Reserve Banks, after consulting with the pledgor, will handle the principal and interest proceeds in accordance with Section 7.9 of Operating Circular 10. During the Suspension Period, the Reserve Banks will continue to treat matured, unredeemed Treasury securities as eligible collateral for other purposes unless the appropriate Reserve Bank is instructed otherwise in accordance with the pledge agreement. After the Suspension period, unless instructed otherwise in accordance with the pledge agreement, the appropriate Reserve Bank will make the appropriate interest payments to the pledging Institution's Master Account, but will withhold payment of principal until substitute collateral is submitted, if there is an outstanding loan/obligation for which the collateral is pledged, except that principal proceeds for collateral pledged to the Treasury Tax and Loan program under 31 C.F.R. §203 will be handled in accordance with that section.

³ Reserve Banks will apply a margin using normal procedures both to matured, unredeemed Treasury securities that will be valued at par and to Treasury securities that have not matured but on which Treasury has missed one or more coupon payments using prices supplied by extended vendors. See Federal Reserve Collateral Guidelines at <http://www.frbdiscountwindow.org/FRcollguidelines.pdf?hdrID=21&dtIID=81>) and collateral margin table at <http://www.frbdiscountwindow.org/discountmargins.cfm?hdrID=21&dtIID=83>.

4.0 GOVERNMENT PAYMENTS AND COLLECTIONS

4.1 GOVERNMENT ACH PAYMENTS

Reserve Banks will continue to deliver government ACH credit and debit items to Institutions. During the Suspension Period, the Reserve Banks will suspend settlement of credit entries to Institutions, in accordance with Section 2.0 of this Circular, and both the credit entry and a reversal will be shown on the Institution's Statement. ACH credit items received by Institutions prior to the Suspension Period that are returned by Institutions to the Treasury during the Suspension Period will be processed and settled as usual. Institutions should return credit payments only for the reasons prescribed in 31 CFR § 210.4(c), which governs the termination and revocation of Federal government ACH transactions.

Government ACH debit originations will be processed and will settle as usual. Because of operational constraints, the Reserve Banks will credit returns of Treasury ACH debit transactions to the returning Institution.

4.2 CHECKS, POSTAL MONEY ORDERS, AND PAID SAVINGS BONDS

During the Suspension Period, Reserve Banks will continue to accept Treasury checks drawn on the Treasury Account, fiscal agency checks, postal money orders, and paid savings bonds. With the exception of fiscal agency checks, Reserve Banks will handle these items as noncash items as described in this Circular, whether they are sent during the Suspension Period or were sent prior to the Suspension Period but remain unpaid. In lieu of the normal time schedules for these items, credit for items received by the Reserve Banks in both separately sorted and mixed cash letters may be suspended in accordance with Section 2.0 of this Circular. For fiscal agency checks, Reserve Banks will continue to credit the sender's Master Account in accordance with normal time schedules because of operational constraints associated with these checks.

The Reserve Banks will accept deposits of checks by U.S. government agencies and credit the Treasury Account as usual. The Reserve Banks will suspend credit for checks it receives from an agency and that are drawn on the Treasury Account in accordance with Sections 2.0 and 4.2 of this Circular.

If an agency deposits a check with a Reserve Bank for collection that is not drawn on the Treasury Account and the paying bank returns the check unpaid, the Reserve Bank will credit the bank depositing the returned check with the Reserve Bank according to its normal availability schedule.⁴

4.3 FEDWIRE FUNDS TRANSFER SERVICES

A Reserve Bank will reject any Fedwire funds transfer sent by the Treasury or another Federal agency during the Suspension Period that would result in a debit to the Treasury Account unless otherwise instructed by the Treasury and the Treasury Account has funds sufficient for the settlement of those transactions. Fedwire funds transfers that will result in a credit to the Treasury Account will be accepted and will settle as usual.

When funds are available for a full day's payments in accordance with Section 2.0 of this Circular, the Treasury will originate Fedwire funds transfers.

4.4 LETTERS OF CREDIT ("LOC") ISSUED BY GOVERNMENT AGENCIES

During the Suspension Period, Institutions should continue to submit paper LOC requests for payment, although Reserve Banks will hold, and not process, these requests until the

⁴ Regulation J, Section 210.13 gives the Reserve Banks the right of recovery against the Institution that returned the check if the Reserve Bank does not receive payment in actually and finally collected funds. The expectation during the Suspension Period, however, is that the Reserve Bank would ultimately receive finally collected funds from Treasury.

Treasury has sufficient funds to make all payments for the day the requests were received initially, in accordance with Section 2.0 of this Circular.

Institutions that submit automated LOC requests for payment through the Fedwire Funds Transfer System or through the Automated Standard Application for Payment (“ASAP”) should continue to submit these requests as usual. Reserve Banks will reject the automated LOC requests until the Treasury has sufficient funds to make all payments for the day the requests were received initially, in accordance with Section 2.0 of this Circular. The Federal Reserve Banks will send a broadcast message over the Fedwire Funds Transfer System to all Institutions requesting that those Institutions that submitted automated LOC requests on a specified day that were rejected, resubmit their requests.

4.5 COMPENSATION OR REIMBURSEMENT FOR COMMODITY CREDIT CORPORATION PROGRAMS, ELECTRONIC TRANSFER ACCOUNTS, OR OTHER PROGRAMS

Designated Reserve Banks handle requests under Treasury reimbursement or compensation programs, including compensation for opening Electronic Transfer Accounts (ETA) and reimbursements for Institutions under Commodity Credit Corporation (“CCC”) programs such as the Tobacco Program, the Peanut Program, the Wheat Program, and the Cotton Program. Reimbursements and compensation under these programs will be suspended in accordance with Section 2.0 of this Circular. For reimbursements or compensation that are made by sight drafts, during a Suspension Period, Reserve Banks will handle these sight drafts as noncash items as described in this Circular. In lieu of their normal time schedules for sight drafts or other forms of reimbursement or compensation under these programs, Reserve Banks will process these sight drafts, or other requests for reimbursement or compensation by posting a credit to the Institution’s Master Account, and, assuming there are not sufficient funds in the Treasury Account to settle that day’s transactions, the Reserve Banks will post a corresponding reversal of the entry. Institutions will see both the credit entry and a reversal the following day on their Statements. The Reserve Bank will give credit to the

sender when funds in the Treasury Account are sufficient to settle all that day's transactions.

4.6 TREASURY TAX AND LOAN ACCOUNTS

Calls on TT&L balances will be announced and conducted in the usual manner, although the frequency and size of the calls may increase during the Suspension Period.

5.0 MASTER ACCOUNT STATEMENTS

During the Suspension Period, an Institution's Statement may reflect credits for certain suspended Treasury items that are matched by reversing debit entries. Those credit entries that appear on an Institution's Statement and are reversed by debit entries do not reflect credits that are available for use by the Institution or account holder. The Statement will not indicate that these credits have been suspended.

6.0 AMENDMENT

The Reserve Banks reserve the right to amend this Circular at any time without notice.

7.0 EFFECT OF THIS CIRCULAR ON PREVIOUS CIRCULARS

This Circular amends and supersedes any inconsistent provisions contained in any operating circular previously issued by this Reserve Bank for the duration of the Suspension Period.

RESTRICTED - FR
Federal Reserve Banks

Special Operating Circular No. 00
(Draft) July 8, 2011

Appendix A

Information about Suspension of Treasury Payments

Reserve Banks will make information available about the status of Treasury payments and the implementation of this Circular in the following manner.

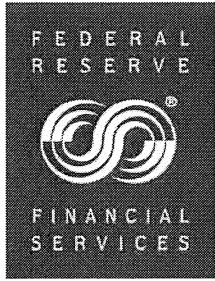
[Fedwire broadcast to _____]

Web site

Electronic mailing list

Questions concerning this Circular should be directed to the following:

VERSION SENT TO FSPC ON 07/28/11



**Federal Reserve Banks
Operating Circular No. 00**

**TREATMENT OF CERTAIN TRANSACTIONS
IF THE DEBT LIMIT IS REACHED**

Effective August 5, 2011

1.0 GENERAL

1.1 INTRODUCTION

This operating circular ("Circular") sets forth the procedures that the Federal Reserve Banks plan to implement if U.S. Treasury borrowings have reached the statutory debt limit. Until the U.S. Congress raises the debt ceiling to permit additional Treasury borrowing, Treasury may direct the Reserve Banks to delay the settlement of Treasury payments. This Circular becomes effective August 5, 2011, unless the Congress has increased the debt ceiling before that date, and shall cease to be effective as described in Section 1.3. Each Reserve Bank has issued a Circular identical to this one.

1.2 DEFINITIONS

For purposes of this Circular:

- (a) **Fedwire^{®1} Funds Service** means the real-time gross settlement system operated by the Federal Reserve Banks and governed by the Board of Governors of the Federal Reserve System's Regulation J subpart B (12 CFR 210) and the Federal Reserve Banks' Operating Circular 6.²
- (b) **Fiscal Agency Check** means a check used to make a payment in connection with a United States security. The check is drawn upon a Reserve Bank and issued on behalf of the Treasury by the Reserve Bank in its capacity as fiscal agent of the United States, as defined in 31 CFR 355.2.
- (c) **Institution** means a depository institution or other institution or entity, as defined in Operating Circular 5.
- (d) **Master Account (or Account)** means the record of financial transactions that reflects the financial rights and obligations of an account holder and the Reserve Bank with respect to each other, where opening, intraday, and

¹ "Fedwire" is a registered service mark of the Federal Reserve Banks.

² References to "Operating Circulars" throughout this Circular are to the operating circulars of the Federal Reserve Banks, which can be viewed at http://www.frbervices.org/regulations/operating_circulars.html.

closing balances are determined, as defined in the Reserve Banks' Operating Circular 1.

- (e) **Statement** means the daily statement of account that a Reserve Bank sends to each Institution that maintains a Master Account on the Reserve Bank's books.
- (f) **Suspension Period** means the period beginning August 5, 2011, and continuing until the earlier of the time this Reserve Bank notifies Institutions that the Suspension Period has ended, or one business day after the effective date of the debt ceiling increase.
- (g) **Treasury Account** means the Treasury General Account maintained on the books of the Federal Reserve Bank of New York.

1.3 DURATION

The provisions of the Circular shall be in effect until the earlier of the time this Reserve Bank notifies Institutions that the Suspension Period has ended, or one business day after the effective date of the debt ceiling increase.

2.0 TREATMENT OF TRANSACTIONS THAT DEBIT OR CREDIT THE TREASURY ACCOUNT

During the Suspension Period, a Reserve Bank will generally process transactions that would debit or credit the Treasury Account. Treasury plans to ensure that it has sufficient balances to make principal and interest payments; therefore, payments associated with marketable Treasury securities and savings bonds will continue to be settled to Institutions' Accounts as scheduled.

Most government payments are made by automated clearing house ("ACH"). As explained in paragraph 4.1, the Treasury and other government agencies plan to originate ACH credit transfers the day before the settlement date and will submit the payments to the Reserve Banks for processing only if Treasury is certain that it will have sufficient balances on the settlement date to settle the transactions. If the Treasury determines that it will not have sufficient balances to settle the transactions, the Treasury

and other government agencies will not transmit the ACH credit transfers to the Reserve Banks for processing.

As explained in paragraphs 4.2, 4.4, and 4.5, the Treasury may direct the Reserve Banks to defer settling check and certain other payments through the Treasury Account until such later date as it instructs the Reserve Banks to settle the transactions and the Reserve Banks, in consultation with the Treasury, project that there will be sufficient funds in the Treasury Account to settle the transactions. The Treasury will determine the order in which deferred transactions are subsequently settled.

Institutions should continue to submit Treasury transactions to the Reserve Banks during the Suspension Period.

Reserve Banks will continue to debit the Account used by the Institution for transactions that result in a credit to the Treasury Account.

Some transactions, such as payment orders originated by the Treasury through the Fedwire Funds service, will be rejected instead of suspended because they settle in real time. A rejected transaction will not appear on the Institution's Statement for the date the transaction was rejected, but it will appear on the later date when the Fedwire payment order is resubmitted and the transaction settles.

Each Institution should formulate its own policies and procedures for handling customer credits related to deferred settlement of Treasury payments.

3.0 SAVINGS BONDS

During the Suspension Period, Reserve Bank savings bond processing sites will stop issuing new U.S. savings bonds. The Treasury Retail Securities sites will inform issuing agents (over-the-counter) to stop selling savings bonds until further notice. Agents should continue to submit reissue, replacement, and redemption transactions as usual.

Reserve Banks will continue to accept, process, and settle redemption, adjustment, and refund transactions under their normal schedules. Paying agents may continue to redeem savings bonds and forward them through the normal collection process for credit. The Treasury may direct the Reserve Banks to defer Agent fee payments.

4.0 GOVERNMENT PAYMENTS AND COLLECTIONS

4.1 GOVERNMENT ACH PAYMENTS

The Treasury and other government agencies plan to originate ACH payments the day before the settlement date (rather than their usual practice of originating ACH payments 3 or 4 days in advance), and will do so only if the Treasury is certain that it will have sufficient balances on the settlement date to settle the transactions. If the Treasury determines that it will not have sufficient balances to settle the transactions, the Treasury and other government agencies will not transmit the ACH payments to the Reserve Banks for processing. Reserve Banks will continue to deliver government ACH credit and debit items to Institutions that the Treasury submits to the Reserve Banks for processing.

ACH credit items received by Institutions prior to the Suspension Period that are returned by Institutions to the Treasury during the Suspension Period will be processed and settled as usual. Institutions should return credit payments only for the reasons prescribed in 31 CFR § 210.4(c), which governs the termination and revocation of Federal government ACH transactions.

Government ACH debit item originations will be processed and will settle as usual. The Reserve Banks will continue to credit returns of Treasury ACH debit items to the Account used by the returning Institution as usual.

4.2 CHECKS, POSTAL MONEY ORDERS, AND PAID SAVINGS BONDS

Reserve Banks will continue to accept Treasury checks drawn on the Treasury Account, postal money orders, fiscal agency checks, and paid savings bonds. The Reserve Banks will continue to credit the Account used by the sender for fiscal agency checks and paid savings bonds in accordance with normal schedules. The Reserve Banks will provide credit for Treasury checks and postal money orders in both separately sorted and mixed cash letters, whether they are sent during the Suspension Period or were sent prior to the Suspension Period but remain unpaid, unless the Treasury directs the Reserve Banks to defer settlement of these transactions. When the Reserve Banks defer settlement of Treasury checks and postal money orders, Reserve Banks will post the credits and associated reversals of the transactions to the Institutions' Accounts. Both credits and reversals will be reflected on the Institutions' Statements. When the Reserve Banks subsequently settle such suspended payments, the Institutions' Statements will reflect the resulting credits for the day of settlement.

If a government agency deposits a check with a Reserve Bank for collection that is not drawn on the Treasury Account and the paying bank returns the check unpaid, the Reserve Bank will credit the bank depositing the returned check with the Reserve Bank according to its normal availability schedule.

4.3 FEDWIRE FUNDS SERVICE

A Reserve Bank will reject any payment order sent by the Treasury or another Federal agency through the Fedwire Funds service during the Suspension Period that would result in a debit to the Treasury Account unless otherwise instructed by the Treasury and the Treasury Account has funds sufficient for the settlement of those transactions. Payment orders that will result in a credit to the Treasury Account will be accepted and will settle as usual.

4.4 LETTERS OF CREDIT ("LOC") ISSUED BY GOVERNMENT AGENCIES

During the Suspension Period, Institutions should continue to submit paper LOC requests for payment. The Reserve Banks will hold, and not process, these requests until Treasury directs the Reserve Banks to make these payments and the Treasury Account has sufficient funds for the settlement of those transactions.

Institutions that submit automated LOC requests for payment through the Fedwire Funds Service or through the Automated Standard Application for Payment ("ASAP") should continue to submit these requests as usual. LOC requests involving the Fedwire Funds Service will not be processed until the Treasury directs the Reserve Banks to accept the requests and the Treasury Account has sufficient funds for the settlement of those transactions. The Federal Reserve Banks will send a broadcast message over the Fedwire Funds Service to all Institutions requesting that those Institutions that submitted automated LOC requests on a specified day that were rejected, resubmit their requests. Requests submitted through ASAP settling through ACH will be handled in accordance with section 4.1 of this Circular.

4.5 COMPENSATION OR REIMBURSEMENT FOR COMMODITY CREDIT CORPORATION PROGRAMS, ELECTRONIC TRANSFER ACCOUNTS, OR OTHER PROGRAMS

Designated Reserve Banks handle requests under Treasury or government agency reimbursement or compensation programs, including compensation for opening Electronic Transfer Accounts ("ETA") and reimbursements under Commodity Credit Corporation ("CCC") programs such as the Tobacco Program, the Peanut Program, the Wheat Program, and the Cotton Program. Reimbursements and compensation under these programs may be deferred in accordance with Section 2.0 of this Circular. When the Treasury directs the Reserve Banks to defer settlement of these transactions, Reserve Banks will post credits and reversals of the transactions to the Institutions' Accounts. Both credits and reversals will be reflected on the Institutions' Statements. When the Reserve Banks subsequently settle such suspended payments, the Institutions' Statements will reflect the resulting credits for the day of settlement.

4.6 TREASURY TAX AND LOAN ACCOUNTS

Calls on TT&L balances will be announced and conducted in the usual manner, although the frequency and size of the calls may increase during the Suspension Period.

5.0 MASTER ACCOUNT STATEMENTS

During the Suspension Period, an Institution's Statement may reflect credits that are offset by reversing debit entries for certain Treasury items whose settlement has been deferred. Those credit entries that appear on an Institution's Statement and are reversed by debit entries do not reflect credits that are available for use by the Institution or account holder. The Statement will not indicate that these credits have been deferred.

6.0 AMENDMENT

The Reserve Banks reserve the right to amend this Circular at any time without notice.

7.0 EFFECT OF THIS CIRCULAR ON PREVIOUS CIRCULARS

This Circular amends and supersedes any inconsistent provisions contained in any operating circular previously issued by this Reserve Bank for the duration of the Suspension Period.



FRBNY LEGAL COMMENTS 02/20/12

**Federal Reserve Banks
Special Operating Circular No. 00**

**TREATMENT OF GOVERNMENT TRANSACTIONS
FOR DEBT LIMIT PURPOSES**

Effective August 3, 2011

1.0 GENERAL

1.1 INTRODUCTION

This operating circular ("Circular") sets forth the procedures that the Federal Reserve Banks plan to implement effective August 3, 2011, if the U.S. Congress does not increase the statutory debt limit before that date. Until the Congress raises the debt ceiling to permit additional borrowing by the U.S. Treasury Department ("Treasury"), government agencies may delay certain payments. This Circular becomes effective August 3, 2011, unless the Congress has increased the debt ceiling before that date, and shall cease to be effective as described in Section 1.3. Each Reserve Bank has issued a Circular identical to this one.

1.2 DEFINITIONS

For purposes of this Circular:

- (a) **Account** means a Master Account as defined in the Reserve Banks' Operating Circular No. 1.¹
- (b) **Fedwire^{®2} Funds Service** means the real-time gross settlement system operated by the Federal Reserve Banks and governed by the Board of Governors of the Federal Reserve System's Regulation J subpart B (12 CFR 210) and Operating Circular No. 6.
- (c) **Fiscal Agency Check** means a check used to make a payment in connection with a United States security. The check is drawn upon a Reserve Bank and issued on behalf of the Treasury by the Reserve Bank in its capacity as fiscal agent of the United States, as further described in 31 CFR 355.
- (d) **Institution** means a depository institution or other institution or entity, as defined in Operating Circular No. 5.
- (e) **Treasury Account** means the Treasury General Account maintained on the books of the Federal Reserve Bank of New York.

1.3 DURATION

The provisions of the Circular shall be in effect until the earlier of the time this Reserve Bank notifies Institutions that the Circular is no longer in effect, or one business day after the effective date of a debt ceiling increase.

2.0 TREATMENT OF TRANSACTIONS THAT DEBIT OR CREDIT THE TREASURY ACCOUNT

A Reserve Bank will generally process transactions that would debit or credit the Treasury Account. Treasury plans to conduct auctions to roll over maturing debt and will

¹ References to "Operating Circulars" throughout this Circular are to the operating circulars of the Federal Reserve Banks, which can be viewed at http://www.frb-services.org/regulations/operating_circulars.html.

² "Fedwire" is a registered service mark of the Federal Reserve Banks.

ensure that it has sufficient balances to make principal and interest payments. Therefore, payments associated with marketable Treasury securities and savings bonds will continue to be settled to Institutions' Accounts as scheduled.

The Reserve Banks will process and settle as usual government automated clearing house ("ACH") payments that the Treasury and other government agencies submit to the FedACH Service. Similarly, the Reserve Banks will provide credit as usual for Treasury checks, postal money orders, Fiscal Agency Checks, and paid savings bonds that they receive. Fedwire Funds transfers that debit the Treasury Account will continue to be final and irrevocable to the receiving bank. Treasury and other government agencies will make payments only if they are certain that the Treasury Account will have sufficient balances on the settlement date to settle the transactions.

Institutions should continue to submit transactions to the Reserve Banks that result in either a debit or a credit to the Treasury Account. Reserve Banks will continue to debit the Account used by the Institution for transactions that result in a credit to the Treasury Account.

Each Institution should formulate its own customer policies and procedures related to delays in the receipt of Treasury payments.

3.0 SAVINGS BONDS

Reserve Bank savings bond processing sites will stop issuing new U.S. savings bonds. The Treasury Retail Securities sites will inform issuing agents (over-the-counter) to stop selling savings bonds until further notice. Agents should continue to submit reissue, replacement, and redemption transactions as usual.

Reserve Banks will continue to accept, process, and settle redemption, adjustment, and refund transactions under their normal schedules. Paying agents may continue to redeem savings bonds and forward them through the normal collection process for credit. The Treasury may direct the Reserve Banks to defer agent fee payments.

4.0 GOVERNMENT PAYMENTS AND COLLECTIONS

4.1 GOVERNMENT ACH PAYMENTS

Most government payments are made by ACH. The Treasury and other government agencies plan to originate ACH payments the day before the settlement date (rather than their usual practice of originating ACH payments up to 4 days in advance), and will do so only if the Treasury is certain that it will have sufficient balances on the settlement date to settle the transactions. The Treasury and other government agencies may delay the submission of ACH payments to the Reserve Banks for processing in FedACH; therefore, the settlement date of payments may be later than originally anticipated. Reserve Banks will continue to deliver government ACH credit and debit items to Institutions that the Treasury or other government agencies submit to the Reserve Banks for processing. Institutions should be prepared to post the credits and debits to customers' accounts in a timely manner.

Government ACH credit items that are returned by Institutions to the Treasury Account will be processed and settled as usual. Institutions should return credit payments only for the reasons prescribed in 31 CFR § 210.4(c), which governs the termination and revocation of Federal government ACH transactions.

Government ACH debit item originations will be processed and will settle as usual. The Reserve Banks will continue to credit returns of Government ACH debit items to the Account used by the returning Institution as usual.

4.2 CHECKS, POSTAL MONEY ORDERS, AND PAID SAVINGS BONDS

The Treasury and other government agencies may delay sending checks drawn on the Treasury Account to the intended recipients of those checks and will send the checks only if the Treasury is certain that it will have sufficient balances to settle the transactions. The Reserve Banks will continue to accept checks drawn on the Treasury Account, postal money orders, Fiscal Agency Checks, and paid savings bonds, and will continue to credit the Account used by the sender in accordance with normal schedules.

4.3 FEDWIRE FUNDS TRANSFERS

The Treasury and other government agencies may delay originating Fedwire Funds transfers. Fedwire Funds payment orders originated by the Treasury and other government agencies that are accepted by the Fedwire Funds Service will continue to be credited to the receiving Institution's Account, in accordance with 12 CFR 210.31. Payment orders that will result in a credit to the Treasury Account will be accepted and will settle as usual.

4.4 LETTERS OF CREDIT ("LOC") ISSUED BY GOVERNMENT AGENCIES

Institutions should continue to submit paper LOC requests for payment as usual. The Treasury may direct the Reserve Banks to hold, and not process, these requests until the Treasury directs the Reserve Banks to make these payments.

Institutions that submit automated LOC requests for payment through the Fedwire Funds Service should continue to submit these requests as usual. The Treasury may direct the Reserve Banks not to process LOC requests made through the Fedwire Funds Service. If the Reserve Banks do not process LOC requests, they will send a broadcast message over the Fedwire Funds Service when so directed by the Treasury, requesting that those Institutions that initially submitted automated LOC requests on a specified day resubmit their requests.

Automated LOC requests for payment through the Automated Standard Application for Payment should continue to be submitted as usual. The Treasury may delay payment of these requests, but any such delayed payment will not require resubmission of the request.

4.5 COMPENSATION OR REIMBURSEMENT FOR COMMODITY CREDIT CORPORATION PROGRAMS, ELECTRONIC TRANSFER ACCOUNTS, OR OTHER PROGRAMS

Designated Reserve Banks handle requests under certain Treasury or government agency reimbursement or compensation programs, including compensation for opening Electronic Transfer Accounts and reimbursements under Commodity Credit Corporation programs such as the Tobacco Program, the Peanut Program, the Wheat Program, and the Cotton Program. Reimbursements and compensation under these programs may be delayed by Treasury or the relevant government agency.

5.0 TREASURY TAX AND LOAN ("TT&L") ACCOUNTS

Calls on TT&L balances will be announced and conducted in the usual manner, although the frequency and size of the calls may increase.

6.0 AMENDMENT

The Reserve Banks reserve the right to amend this Circular at any time without notice.

7.0 EFFECT OF THIS CIRCULAR ON PREVIOUS CIRCULARS

This Circular amends and supersedes any inconsistent provisions contained in any operating circular previously issued by this Reserve Bank.

Appendix 5

Memorandum to President Dudley (October 4, 2013)

FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

MEMORANDUM		PRE-DECISIONAL AND DELIBERATIVE RESTRICTED FR (FRBNY USE ONLY)
DATE	10/4/2013	
TO	William Dudley	
FROM	Roseann Stichnoth	
SUBJECT	October 9, 2013 Debt Limit Briefing – Topic 4.a. Planning and Communications: Reserve Bank Operations	

Payment Prioritization

- Treasury will control the flow of government payments to be processed by the FRS and will send to the FRS only those payments for processing that they have funds to cover.

Treasury has indicated that each evening at 8:00 p.m. these will be all or nothing decisions – either all payments will be made or none will (excluding P&I). To assure operational readiness, Treasury will begin to pilot this approach on or about Wednesday, October 16. FRBNY is preparing for these daily interfaces, and is also taking the operational steps to assure that payments will not be routinely released and will await explicit authorization. See the attached table for a table depicting the key operational areas impacted across the FRS.

- FRS special processing procedures in a debt ceiling event will focus on Non Treasury Disbursing Offices (NTDOs). Upon direction from Treasury:
 - Fedwire funds origination for NTDOs will be taken offline and Treasury authorization will be required for processing.
 - The ACH Risk Service will be initiated for NTDOs where ACH files will be pended until authorization is received from Treasury and the NTDO that the files are ok to process.
- Several other business lines (SVC, ASAP, ITS, Letters of Credit, etc.) that involve direct debits to the TGA have developed procedures to hold/suspend these debits during a debt ceiling event as directed by Treasury.
- All other FRS Treasury business lines should operate normally during a debt ceiling event.

FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

Treasury General Account (TGA) Overdraft Scenarios

Scenario One: Policy Expectations and Reserve Forecasting (PERF) staff projects a TGA overdraft for the next day.

Implications: FRBNY needs to assure with high confidence that Treasury payment instructions (8:00 p.m.) will not cause a next day end of day (EOD) overdraft.

Staff Actions: Expect PERF staff will coordinate with staff at BOG and Treasury and conform the projections. If FRBNY still expects an overdraft, should be escalated to senior decision-makers.

Timing: Likely timing of escalation would be mid – late day.

Options: Reach out to D. Gregg to assure alignment, and confirm that Treasury is issuing appropriate instructions to prevent an overdraft.

Question: What is the desired confidence level that an overdraft will not occur? 95%, 99% or other? Can FRBNY confirm and align our risk tolerance with Treasury in advance? See separate 10/4/13 memo from [REDACTED] to L. Logan regarding Recommended Target Value for the TGA.

Scenario Two: An inadvertent/unexpected EOD TGA overdraft occurs.

Implications: FRBNY will need the highest assurance that another EOD overdraft will not occur.

Timing: 7:45 p.m., when the TGA closes.

Options: If the projections for the next day give high confidence to all (FRBNY, BOG and Treasury) that the overdraft will be cured, then no action may be required. If the projections do not support high confidence, FRBNY must receive assurances from Treasury that they will take necessary measures to cure the overdraft the next day.

Question: For any EOD overdraft event, if it is followed by a P&I payment day, does FRBNY want to consider a delay of payment of P&I until later the next day to prevent the overdraft from getting bigger before it gets smaller?

Scenario Three: Insufficient funds to pay P&I the next day.

Timing: As per the foregoing, we are likely to know this early or mid-day, but could be later.

Options: Treasury has two options:

1. Release files as though P&I will be paid (instructions by 6:30 p.m. of Day 0 for normal processing – can be extended), and negotiate through night and into next day to see if the deal can be reached. Files are normally released for payment around 8:00a.m., but could be delayed until the late afternoon if so decided. If a deal is not reached, the CUSIPs default and can no longer be traded or transferred.
2. Roll the dates/aka extend the maturities by one day. FRBNY would have to receive this instruction no later than 6:30 p.m. (for normal processing) on day zero, and such instruction is irrevocable.

FRBNY LEGAL DRAFT (w/ TRSO updates) 09/20/13
 PRE-DECISIONAL AND DELIBERATIVE – FOR INTERNAL TREASURY AND FRS USE ONLY

**RESERVE BANK PAYMENT CHANNELS AND BUSINESS LINES
 WITH TREASURY-APPROVED DEBT CEILING PROCEDURES¹**

<u>PAYMENT CHANNEL / BUSINESS LINE</u>	<u>RESPONSIBLE RESERVE BANK</u>	<u>SUMMARY OF PROCEDURE</u>	<u>TREASURY OFFICIALS AUTHORIZED TO RELEASE & TIMING OF PAYMENTS</u>
FedACH	Atlanta	Treasury instructs RPO to place specified NTDO or other TGA RTNs on the ACH Risk Service, and submits a list of Treasury officials authorized to approve individual ACH files for manual release. This list will be signed by [the Fiscal Assistant Secretary][an authorized signer for the Treasury General Account.]	Dick Gregg (OFAS) to provide direction/authorization to release payments on nightly Treasury/FRS stakeholder call. Following approval to release payments, additional approval to release individual ACH files at specified times in the day/evening will be approved [in writing] by UST officials listed on RPO list.
Fedwire Funds Service	New York	Treasury may instruct WPO to prohibit certain NTDO or other TGA RTNs from originating funds transfers and/or may permit certain NTDO or other TGA RTNs to originate funds transfers only through the offline service. Treasury and each NTDO will submit forms that list NTDO individuals who may originate offline transfers and Treasury individuals who may verify such transfers via the WPO's callback process. These forms will be signed by [the Fiscal Assistant Secretary][an authorized signer for the Treasury General Account.]	Dick Gregg (OFAS) to provide direction/authorization to release payments on nightly Treasury/FRS stakeholder call. Individual payments to be released throughout the day as they are verified via callback by UST officials listed on WPO form.
Fedwire Securities Service	New York	Fedwire securities processing will continue as usual – no special procedures will be invoked.	Fedwire securities are processed as usual with no specific authorization required. Dick Gregg to provide any direction/authorization for a change in this approach.
Cash	San Francisco	All transactions between Reserve Bank Cash areas related to U.S. Mint and BEP that result in the issuance of a TGA debit voucher are suspended until instructed by [the Fiscal Assistant Secretary] [in writing].	Dick Gregg (OFAS) to provide direction/authorization to process debit vouchers related to U.S. Mint and BEP on nightly Treasury/FRS stakeholder call.
Treasury Check / Postal Money Orders	Atlanta	Treasury Check and Postal Money Order processing will continue as usual – no special procedures will be invoked.	Checks and PMO are processed as usual with no specific authorization required.
Automated Standard Application for Payments (ASAP)	Richmond	ASAP will hold all ACH payment requests until approval to release payments is received from Treasury. Some Fedwire Funds requests will be processed. Information on held ACH payments and non-processed Fedwire payments will be provided daily to Gary Beets at KC RFC.	Dick Gregg (OFAS) to provide direction/authorization to release payments on nightly Treasury/FRS stakeholder call.

¹ Payment channel procedures do not generally provide for preventing business line transactions from settling in the TGA; rather, this is left to individual business line procedures.

FRBNY LEGAL DRAFT (w/ TRSO updates) 09/20/13
 PRE-DECISIONAL AND DELIBERATIVE – FOR INTERNAL TREASURY AND FRS USE ONLY

<u>PAYMENT CHANNEL / BUSINESS LINE</u>	<u>RESPONSIBLE RESERVE BANK</u>	<u>SUMMARY OF PROCEDURE</u>	<u>TREASURY OFFICIALS AUTHORIZED TO RELEASE & TIMING OF PAYMENTS</u>
Central Bank and International Account Services (CBIAS)	New York	CBIAS will not act on any letter of credit draw request or standing instruction from an international organization that would debit the TGA unless authorized [in writing] by [an authorized signer for the Treasury General Account][the Fiscal Assistant Secretary].	Dick Gregg (OFAS) to provide direction/authorization for letter of credit draws on nightly Treasury/FRS stakeholder call.
International Treasury Services (ITS)	New York	Payments submitted to ITS.gov by NTDOs to be approved [in writing] prior to processing (individually or by batch) by [Gary Beets at KC RFC][the Fiscal Assistant Secretary]. In-transit payments must be completed on their originally scheduled settlement day.	Dick Gregg (OFAS) to provide direction/authorization to release next-day payments on nightly Treasury/FRS stakeholder call.
Legacy Treasury Direct / Savings Bonds / Fiscal Agency Check	Minneapolis / Atlanta / Philadelphia	Legacy Treasury Direct and Savings Bonds processing will continue as usual – no special procedures will be invoked. <i>Fiscal Agency Checks - TBD</i>	LTD and Savings Bonds are processed as usual with no specific authorization required. Dick Gregg to provide any direction/authorization for a change in this approach.
Stored Value Card (SVC)	Boston	Stored Value Card processing will continue as usual – no special procedures will be invoked.	SVC processing continues as usual. Dick Gregg to provide any direction/authorization for a change in this approach.
Treasury Cash Management System (TCMS)	Boston	Boston will notify Treasury (individuals TBD) when net negatives above a threshold of \$50 million are encountered. Net negatives will be processed unless Treasury provides special instructions at the time they are notified of the net negative.	Net negatives to be reported to Treasury (individuals TBD) as they occur.

Appendix 6

Letter from from Alastair Fitzpayne, Assistant Secretary for Legislative Affairs,
U.S. Department of the Treasury to Jeb Hensarling, Chairman, Committee on
Financial Services (April 8, 2014)



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

April 8, 2014

The Honorable Jeb Hensarling
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Hensarling:

I write in response to your March 25, 2014 letter regarding two separate matters—first, the Department of Justice’s decision not to criminally prosecute HSBC Holdings Plc. and HSBC Bank USA N.A. (collectively HSBC), and second, the Department of the Treasury’s planning in the event that Congress had failed to raise the debt limit. We appreciate your important oversight role, and we have worked to satisfy your questions in each of these areas. This letter lays out those efforts, and the documents we are prepared to make available. We remain committed to working cooperatively with the Committee.

I. Requests Regarding DOJ’s Prosecutorial Decisions

Over the course of the past year, Treasury has consistently cooperated with the Committee’s examination of DOJ’s prosecutorial decisions in matters involving large financial institutions. The Committee’s initial inquiries to Treasury, dated March 8 and March 20, 2013, requested economic analyses prepared by Treasury for DOJ regarding the potential effect that prosecutions of large financial institutions would have on the financial system’s ability to provide essential functions and services. In response, we conducted a search of Treasury records and informed the Committee, in letters dated March 28 and May 10, 2013, that we had not identified any such analyses.

On June 7, 2013, the Committee sent a new and different request to Treasury for records responsive to a FOIA request regarding DOJ’s decision not to criminally prosecute HSBC for money laundering and violations of U.S. sanctions law. As you know, Treasury and DOJ were part of the combined federal, local, and international government action against HSBC that amounted to \$1.9 billion in assessed penalties, the largest bank settlement in U.S. history. Treasury’s Office of Foreign Assets Control had provided an interim production of documents to the FOIA requester in May 2013. In a July 26, 2013 letter to the Committee, Treasury stated that we were reviewing additional relevant materials in consultation with the other agencies that had interests in the documents, and we were committed to providing materials to the Committee as we processed them in connection with the FOIA request.

Treasury is now in a position to make available to the Committee several hundred pages of additional documents that we have identified as responsive to the Committee's June 7, 2013 request. Please contact Kathleen Mellody, Deputy Assistant Secretary for Legislative Affairs, to arrange a mutually agreeable time to review the material.

We recognize that requests from Congressional committees are not subject to the same exemptions that apply to FOIA requesters, and these documents do not contain FOIA redactions. Certain information in the documents, however, has been redacted by DOJ to protect prosecutorial deliberations, as has information pertaining to pending enforcement matters that are unrelated to the HSBC action. Consistent with established third-agency practice, we have deferred to DOJ's judgment about those redactions.

II. Requests Regarding Debt Limit Planning

Your recent letter references a December 6, 2013 request to Treasury for information and documents regarding planning by Treasury in the event of Congress's failure to raise the debt limit. We are aware that you sent a similar request for documents to the Federal Reserve Bank of New York, which serves as Treasury's fiscal agent in this context. We are responding today to your requests on behalf of both Treasury and the New York Fed.

As Treasury stated in our letter of March 14, 2014, we remain hopeful that Congress's recent bipartisan action to extend the government's borrowing authority represents a new approach in which the full faith and credit of the United States is not subject to brinksmanship. This bipartisan action has helped provide certainty and stability to businesses and financial markets, and we remain concerned that continued speculation about debt limit contingency planning could diminish needed confidence in the economic recovery. As previous Administrations of both parties have acknowledged, the notion that Congress could fail to raise the debt limit in a timely manner should remain unthinkable.

Nevertheless, in recognition of the Committee's oversight interest, we included in our March 14, 2014 letter information about Treasury's prior planning efforts. We also provided a copy of a letter from the Council of Inspectors General on Financial Oversight (CIGFO) that contained additional responsive information. Your March 25, 2014 letter indicates that the Committee is interested in receiving additional responses and records. We address below each of your questions to Treasury and each of your document requests to Treasury and the New York Fed.

Your first two questions concern the operations of the Fedwire Securities Service that enables participants to hold, maintain, and transfer U.S. Treasury-issued securities. The New York Fed provided answers to those questions as an attachment to its December 5, 2013 response to the Committee.

Your remaining question to Treasury concerns debt limit contingency planning. As we stated previously, Treasury has considered a range of options with respect to how we might operate if the nation's borrowing authority was not extended. As prior Administrations have concluded, no option was identified – other than raising the debt limit – that could reasonably protect the full faith and credit of the United States and the American people from serious harm. Specifically, the idea of “prioritization” has been viewed as unacceptably risky and unfair to the American people by every President and Treasury Secretary who has considered it. We stress that no final decisions were made during recent debt limit impasses because Congress ultimately took action to extend the debt limit.

In response to your document requests to Treasury and the New York Fed, enclosed with this letter are communications relating to Secretary Lew's October 10, 2013 testimony before the Senate Finance Committee. We have not identified any consultation between Treasury and the New York Fed regarding the preparation of the Secretary's testimony.

You also request documents regarding meetings of the Federal Open Market Committee (FOMC) that relate to debt limit contingency planning and the names and titles of Treasury staff who briefed the FOMC on these matters. We are not aware of Treasury staff attending or providing briefings during any FOMC meetings that may have covered this topic, including the video conference meetings of August 1, 2011 and October 16, 2013.

Finally, with respect to your request for documents pertaining to any plan for whether or how to continue making principal and interest payments on Treasury debt had the nation's borrowing authority not been raised by Congress, we again note that no final decision was ever made. We are nonetheless working to identify and review documents that may be responsive to the Committee's requests. We would be happy to discuss this matter further with the Committee and provide you with an update on our efforts.

III. Conclusion

Treasury has been working to accommodate the Committee's requests on these topics. We remain firmly committed to cooperating with you as you perform your oversight role, while also protecting the legitimate law enforcement and other interests of the Executive Branch. Please contact Kathleen Mellody at (202) 622-1900 if you or your staff have any questions regarding this letter.

Sincerely,



Alastair M. Fitzpayne

Assistant Secretary for Legislative Affairs

Enclosure

Identical letter sent to:
The Honorable Patrick McHenry

cc: The Honorable Maxine Waters
The Honorable Al Green
Mr. William C. Dudley, Federal Reserve Bank of New York

From: NJ Need-to-Know Memo <sitefeedback@nationaljournal.com>
Sent: Tuesday, October 08, 2013 8:20 AM
To: Nelson, Michael
Subject: With Shutdown Unresolved, Congress Takes Up Debt Ceiling

National Journal Need-To-Know Memo

Oct. 8, 2013

Congress

White House

National Security

Politics

Energy

Economy & Budget

Health Care

TOP NEWS

NO CLOSER TO ENDING GOVERNMENT SHUTDOWN, LAWMAKERS BEGIN DEBT FIGHT. Democratic Senate aides said that Senate Majority Leader Harry Reid, D-Nev., is expected to introduce a bill today that would raise the debt limit through the 2014 midterm elections. A procedural vote on the motion could come Friday or Saturday.

ADMINISTRATION ADVISER SIGNALS OPENNESS TO SHORT-TERM DEAL. National Economic Council Director Gene Sperling said Monday that the White House could be amenable to a short-term increase in the debt ceiling, which would allow for negotiations to end the ongoing fiscal battles.

CONGRESS

HOUSE DEMOCRATS PUSH FORWARD ON PROCEDURAL MOTION. House Democrats are trying to use a discharge petition to push a vote on a clean spending bill, but it would need 218 signatures. The continuing resolution — if it overcame that hurdle — likely would not be voted on until Oct. 28, at the earliest.

AMERICANS SPREADING THE BLAME ON SHUTDOWN. With Republicans continuing to ask for concessions to President Obama's health law, and Democrats steadfastly refusing, a CNN/ORC International survey found that 63 percent of respondents said they were angry with Republicans for the government shutdown, compared to 57 percent who said they were angry with Democrats.

HOUSE MOVING FORWARD ON FARM BILL. House Speaker John Boehner, R-Ohio, is expected to appoint members to a joint conference on the legislation, with House Agriculture Committee Chairman Frank Lucas, R-Okla., calling for a meeting between top negotiators in advance.

WHITE HOUSE

OBAMA ON CLEAN CR: 'THE HOUSE SHOULD HOLD THAT VOTE TODAY.' President Obama on Monday challenged House Speaker John Boehner, R-Ohio, to hold a vote on the Senate-passed continuing resolution to fund the government.

OBAMA THANKS FEMA STAFF FOR WORKING THROUGH SHUTDOWN. In an unannounced visit Monday, the president acknowledged furloughed employees who returned to work—without pay—to aid preparations for Tropical Storm Karen.

FROMAN: TRANS-PACIFIC PARTNERSHIP ON PACE FOR COMPLETION THIS YEAR. U.S. Trade Representative Michael Froman said Tuesday that the participating nations aim to resolve the remaining points of contention—which range from intellectual property issues to environmental concerns—at meetings on the sidelines of the World Trade Organization summit in December.

- In a joint statement on Tuesday, the leaders of Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States, and Vietnam said that negotiations are "on track" for completion of the TPP.

NATIONAL SECURITY

BILATERAL SECURITY AGREEMENT WITH AFGHANISTAN REMAINS ON TRACK. Administration officials said Monday that the two countries are still expected to sign the pact governing the role of U.S. military forces in Afghanistan, despite Afghan President Hamid Karzai's criticisms of the "great suffering" caused by NATO's presence.

SIX SOLDIERS, THREE POLICE OFFICERS KILLED IN RISING VIOLENCE IN EGYPT. Clashes between Islamists and government-backed forces erupted across the country on Monday, one day after 53 protesters were killed by government security forces in Cairo.

- The two sides are unlikely to come to terms soon, particularly following a panel of judges' recommendation that the government dissolve the Freedom and Justice Party, founded in 2011 by the Muslim Brotherhood.

POLITICS

COTTON LAUNCHES FIRST SENATE AD. The TV spot, which aired over the weekend, targets Sen. Mark Pryor, D-Ark., on his support for the Affordable Care Act. It mentions Pryor's vote against a provision that would have prevented lawmakers and staffers from receiving health care subsidies, but does not note that it was tied to a continuing resolution.

FORMER WISCONSIN COMMERCE SECRETARY ANNOUNCES BID AGAINST WALKER. Mary Burke, a Democrat, highlighted in a video the state's deficit under Gov. Scott Walker, a Republican who withstood a recall election last year, and her own role in helping to create jobs through her family's business.

- History, polling, and Walker's fundraising apparatus suggest that Burke faces an uphill fight to unseat the incumbent.

ENERGY

BP, FEDS DISPUTE AMOUNT OF OIL SPILLED IN DEEPWATER HORIZON BLOWOUT. The next phase in the trial to determine the extent of BP's liability in the accident began Monday and will focus on the size of the spill.

CHIEF ARCHITECT OF CLIMATE ACTION PLANS TO STEP DOWN. Senior White House environmental adviser Heather Zichal is expected to leave the administration in the next few

weeks.

ECONOMY & BUDGET

LEW TO TESTIFY THURSDAY ON DEBT CEILING. Treasury Secretary Jacob Lew will push for Congress to increase the debt ceiling at an 8:30 a.m. Senate Finance Committee hearing. Lew's appearance comes as some Republicans are downplaying the consequences of a partial default.

FOCUS SHIFTING TOWARD DEBT-CEILING DEADLINE. With some furloughed employees returning to work and Congress considering a proposal to provide back pay, economists are turning their attention to the upcoming fight over the country's debt limit and the potentially serious economic repercussions if Congress allows the U.S. to default.

- Wall Street investors remain confident that Congress will raise the debt ceiling, though some worry that the sense of calm is allowing members to downplay the situation's seriousness.

AUGUST REPORT SUGGESTS CONSUMERS REMAIN HESITANT. Consumer credit spending came in above forecasts in August, but fewer Americans are using credit cards — the third month of continuous decline.

SHUTDOWN DERAILS INTERNATIONAL TRADE TALKS. The United States and the European Union canceled trade talks scheduled to occur next week in Brussels, with U.S. trade officials citing staff shortages due to the furlough.

HEALTH CARE

ACA SITE GLITCHES CONTINUE IN SECOND WEEK. Officials say weekend Web repairs helped, but the site will be down again early Tuesday morning for more fixes. The administration has attributed glitches to high traffic, but software problems are also to blame. The insurance industry is calling for patience, saying there is time to fix the system before coverage begins.

ADMINISTRATION WILL NOT RELEASE ACA ENROLLMENT DATA UNTIL NOVEMBER. Officials said Monday that the administration will release monthly enrollment data for the federal exchange when it is available, after the end of this month. State exchanges have released data, though they are using various metrics to evaluate their marketplaces.

REPORT PROJECTS SURGE IN MEDICAID ENROLLMENT AND SPENDING. A Kaiser survey released Monday shows increases are expected even in states not expanding Medicaid through the Affordable Care Act.

(ONE LAST THING. Head Start programs in six states — closed last week due to the government shutdown — are reopening after philanthropists Laura and John Arnold offered \$10 million to help reopen some of the programs.)

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From: Stone McCarthy Research <help@smra.com>
Sent: Tuesday, October 08, 2013 1:50 PM
To: Keane, Frank
Subject: Debt Limit: McConnell Provision and Supercommittee Revival

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October 8, 2013

Debt Limit: McConnell Provision and Supercommittee Revival

For more information, please contact Nancy Vanden Houten.

--Stone & McCarthy (Princeton)--

Key Takeaways:

- The House and Senate are moving, but on different tracks, to consider legislation to increase the debt ceiling.
- Senate leaders want to take up a clean debt limit bill, and may revive an approach for raising the debt limit known as the McConnell provision.
- House Republicans want to create a "supercommittee" comprised of members from both Houses of Congress to find a resolution to the government shutdown and debt limit impasse.
- We don't think an end to the stalemate is imminent.
- President Obama is expected to weigh in at a press conference shortly.

=====

Both the House and Senate are planning action on the debt limit over the next few days, although their approaches are quite different.

In the Senate, Majority Leader Reid is hoping to round up the 60 votes that would be needed to advance "clean" debt limit legislation. To get 60 votes, Reid would need all 52 Democrats, the two Independents that caucus with Democrats and six Republicans. Getting those 60 votes seems like a possibility -- some Republicans are apparently on board -- but it's by no means a done deal.

From accounts we've read, the Senate legislation would revive the mechanism that was part of the 2011 law that ended that debt limit crisis. That mechanism, often called the McConnell provision after Minority Leader McConnell, required the President to notify Congress when a debt limit increase was needed. The House and Senate both had the opportunity to vote on a joint resolution of disapproval. If both houses passed the resolution, the President would presumably have vetoed the resolution. In theory, the resolution of disapproval never made it out of the House. The appeal of the provision to many in Congress was that the debt limit was increased, while members still had the opportunity to go

on record opposing it.

The 2011 legislation allowed for cumulative increases in the debt limit ranging from \$2.1 to \$2.4 trillion, but the actual increase was capped at the lower amount. Getting the full \$2.4 trillion required the so-called deficit reduction "supercommittee" to produce a deficit reduction deal that became law. We know that didn't happen, and as a result we also got the sequester.

And speaking of supercommittees, House GOP leaders plan to bring a bill to the floor that would create a committee to address the government shutdown and the debt limit. The committee would be comprised of members from both the House and Senate. The committee wouldn't be give specific instructions.

As part of the strategy, the House will also consider a bill to pay government employees who work during the shutdown. (Some "essential" employees don't get paid. We're not sure whether certain employees work without pay, or whether all employees stop being paid if the shutdown lasts a certain number of days.) That bill is expected to pass. The next step would be to merge that bill with the legislation creating the new committee, and send it on to the Senate. From what we've heard, the thinking on the part of Republicans is that the Senate would be forced to abandon its no-negotiating stance and agree to create the committee, or vote against paying government workers on the job during the shutdown. Separately, legislation that passed the House that would pay furloughed federal workers retroactively has hit a snag in the Senate.

In addition to the legislative strategies outlined above, there is widespread speculation that Congress will enact a short-term debt limit hike, which the Administration said it wouldn't oppose. Meanwhile, the President is expected to weigh in at a press conference at 2 p.m. EDT. Also, Treasury Secretary Jack Lew is set to testify before Congress on the debt limit on Thursday.

Despite the emergence of new strategies in both the House and the Senate, we don't think an end to the impasse is imminent. We think the government shutdown is likely to last through the end of this week at least. We don't expect action on the debt limit before the middle of next week, unless there is a severe financial market meltdown stemming from fear that the government might not meet its obligations.

Nancy Vanden Houten, CFA
609-683-5237, ext 112

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From: [REDACTED]
Sent: Tuesday, October 08, 2013 4:04 PM
To: [REDACTED]
Subject: Tr prioritization may be discussed by Lew on Thursday -FRSONLY-

Politico
10/8/13 2:58 PM EDT

President Barack Obama today said his administration is exploring “all contingencies” if Congress does not increase the government’s borrowing limit by Oct. 17.

Obama was responding to a question at a press conference about whether his administration would “prioritize” payments to make sure bondholders are paid first in the event the debt ceiling is not increased. Paying bondholders first could avoid the government technically defaulting on its debt even if it doesn’t meet its other financial obligations.

Obama made clear he did not think prioritizing payments was a realistic plan but he did not rule it out, saying Treasury Secretary Jack Lew would discuss the issue at a Senate Finance Committee hearing on Thursday.

“Let me be clear: No option is good in that scenario,” he said. Obama said that if the government fails to pay Social Security beneficiaries, veterans or businesses it would raise questions about the creditworthiness of the United States even if bondholders are paid on time, which in turn could raise the government’s borrowing costs.

“When I hear people trying to downplay the consequences of that, I think that’s really irresponsible,” he said.

[REDACTED] Work, [REDACTED] Cell
Policy Expectations & Reserve Forecasting, Markets Group
Federal Reserve Bank of New York

From: [REDACTED]
Sent: Tuesday, October 08, 2013 5:31 PM
To: [REDACTED] NY MKT Moma Dirs; NY MKT
MOMA Market Monitoring; [REDACTED]

Subject: Debt Limit Update 10.08.2013 -FRONLY-

Note: We have added the Debt Limit Dashboard to MarketSOURCE. Today's dashboard can be found at the following link: https://marketsource.ny.frb.org/publish/view/Debt_Limit_Dashboard_100813.pdf

Political Developments

- No significant progress was made today on the political front to end the partial shutdown of the U.S. Federal government, as congressional Democrats continued to insist that there was enough bipartisan support (between Democrats and moderate Republicans) to pass a "clean" continuing resolution (CR), while House Speaker Boehner remained adamant that enough votes did not exist. Instead, Republican leaders in the House have indicated they will move to form a "supercommittee" comprised of members from both chambers of Congress to negotiate a deal on government spending and the debt limit. Democrats in the House, however, are opposed to such a committee.
- Given the continued political impasse, there is a growing expectation among market participants that Congress may be forced to pass a short-term resolution on the debt limit, allowing more time for a long-term deal to be negotiated. At a press conference this afternoon, President Obama reiterated that he would not negotiate until Congress passed a "clean" CR, though he did suggest he was willing to accept a short-term deal on reopening the government and raising the debt ceiling if it would help pave the way for a longer-term deal.
- Of note, Treasury Secretary Jack Lew is scheduled to testify before Congress on the debt limit on Thursday.

Market Impact

- Despite the lack of any significant progress, U.S. fiscal negotiations continue to dominate market attention. Debt limit concerns are being cited for continued increases seen in Treasury bills and term repo markets. The Treasury bill maturing on October 24th, the first bill potentially impacted by the debt ceiling, is now trading at 27 basis points, roughly 25 basis points higher since last Monday. In comparison, the maximum yield increase in the first affected bill in August 2011, seen the day before a debt limit resolution was reached, was 21 basis points.
 - Today's 4-week bill auction stopped out at 35 basis points, 4 basis points higher than the prevailing 11:30 when-issued rate with dealers attributing the decline in interest and below average auction

statistics to ongoing debt ceiling uncertainty. Following the auction, the 1 month bill is trading around 26 basis points, levels last seen in late 2008. Bill traders are reporting light activity and some 2-way flow with a variety of accounts liquidating positions in end-October to mid-November maturities, citing a potential delay of payment as the main concern. Bill market conditions remain functional though liquidity is reportedly strained and continuing to deteriorate.

- Similarly, repo contacts have characterized term repo liquidity as somewhat strained though liquidity in the overnight market remains normal. Anecdotally, some dealers are cited as increasingly more willing to pay higher rates to secured funding and avoid the potential of a negative outcome to the debt ceiling debate. Meanwhile, repo desks have been more cautious about extending balance sheet around 1- to 2-month terms. While dealer repo contacts continue to expect a resolution to the debt ceiling prior to any missed payments by Treasury, they appear to hold divergent views on the exact timing. Consequently, some contacts have attributed the greater volumes amid higher price volatility seen in the term GCF cash and futures markets to these divergent views.
- Term repo trades through mid-November were reported today between 18 and 21 basis points though in relatively low volumes within the context of overall GCF repo activity. This is up from roughly 8 basis points for similar trades around the beginning of October. Notably, contacts suggest that term trades are predominantly inter-dealer and being conducted via GCF rather than the broader triparty market. GCF repo futures rates have also continued moving higher with the Oct contract now implying an 18 bps average for the rest of the month, and Nov and Dec maturities implying between 12 and 14 basis point averages for the rest of the year, increasing by 3 to 4 basis points from last Monday. Separately, contacts note that overnight GC repo markets are reflecting incremental debt ceiling concerns on the margin though liquidity conditions remain robust. Consistent with this, Treasury GC repo for regular settlement tomorrow was last quoted at roughly 12 basis points, about 2 to 3 basis points above today's range.
- Thus far, there have been limited signs the government shutdown or concerns over the debt ceiling have impacted market functioning of coupon Treasuries. The Desk's relative value pricing model – or spline model – indicates nominal coupons most likely to experience a technical default are generally trading in-line with comparable securities with measures of market distortion – or average spline errors - within ranges witnessed since mid-year. That said, some suggest dislocations could increase in severity as the debt ceiling deadline nears. In the week before the deadline in 2011, the magnitude of spline errors increased for all nominal Treasuries.

**Many thanks to TMP and DMM for their contributions.

██████████
Markets Group
Federal Reserve Bank of New York
Direct: ██████████
BlackBerry: ██████████
Trading Desk: ██████████

From: Schmedes, Denise
Sent: Tuesday, October 08, 2013 6:24 PM
To: NY FISG - Senior Officers; NY FISG FMIF Management
Cc: [REDACTED]
Subject: Fw: Debt Limit Update 10.08.2013 -FRSONLY-

Today's update from Markets Group.

From: [REDACTED]
Sent: Tuesday, October 08, 2013 05:31 PM Eastern Standard Time
To: [REDACTED] NY MKT Moma Dirs; NY MKT MOMA Market Monitoring;

Subject: Debt Limit Update 10.08.2013 -FRSONLY-

Note: We have added the Debt Limit Dashboard to MarketSOURCE. Today's dashboard can be found at the following link: https://marketsource.ny.frb.org/publish/view/Debt_Limit_Dashboard_100813.pdf

Political Developments

- No significant progress was made today on the political front to end the partial shutdown of the U.S. Federal government, as congressional Democrats continued to insist that there was enough bipartisan support (between Democrats and moderate Republicans) to pass a "clean" continuing resolution (CR), while House Speaker Boehner remained adamant that enough votes did not exist. Instead, Republican leaders in the House have indicated they will move to form a "supercommittee" comprised of members from both chambers of Congress to negotiate a deal on government spending and the debt limit. Democrats in the House, however, are opposed to such a committee.
- Given the continued political impasse, there is a growing expectation among market participants that Congress may be forced to pass a short-term resolution on the debt limit, allowing more time for a long-term deal to be negotiated. At a press conference this afternoon, President Obama reiterated that he would not negotiate until Congress passed a "clean" CR, though he did suggest he was willing to accept a short-term deal on reopening the government and raising the debt ceiling if it would help pave the way for a longer-term deal.
- Of note, Treasury Secretary Jack Lew is scheduled to testify before Congress on the debt limit on Thursday.

Market Impact

- Despite the lack of any significant progress, U.S. fiscal negotiations continue to dominate market attention. Debt limit concerns are being cited for continued increases seen in Treasury bills and term repo markets. The Treasury bill maturing on October 24th, the first bill potentially impacted by the debt ceiling, is now trading at 27 basis

points, roughly 25 basis points higher since last Monday. In comparison, the maximum yield increase in the first affected bill in August 2011, seen the day before a debt limit resolution was reached, was 21 basis points.

- Today's 4-week bill auction stopped out at 35 basis points, 4 basis points higher than the prevailing 11:30 when-issued rate with dealers attributing the decline in interest and below average auction statistics to ongoing debt ceiling uncertainty. Following the auction, the 1 month bill is trading around 26 basis points, levels last seen in late 2008. Bill traders are reporting light activity and some 2-way flow with a variety of accounts liquidating positions in end-October to mid-November maturities, citing a potential delay of payment as the main concern. Bill market conditions remain functional though liquidity is reportedly strained and continuing to deteriorate.
- Similarly, repo contacts have characterized term repo liquidity as somewhat strained though liquidity in the overnight market remains normal. Anecdotally, some dealers are cited as increasingly more willing to pay higher rates to secured funding and avoid the potential of a negative outcome to the debt ceiling debate. Meanwhile, repo desks have been more cautious about extending balance sheet around 1- to 2-month terms. While dealer repo contacts continue to expect a resolution to the debt ceiling prior to any missed payments by Treasury, they appear to hold divergent views on the exact timing. Consequently, some contacts have attributed the greater volumes amid higher price volatility seen in the term GCF cash and futures markets to these divergent views.
- Term repo trades through mid-November were reported today between 18 and 21 basis points though in relatively low volumes within the context of overall GCF repo activity. This is up from roughly 8 basis points for similar trades around the beginning of October. Notably, contacts suggest that term trades are predominantly inter-dealer and being conducted via GCF rather than the broader triparty market. GCF repo futures rates have also continued moving higher with the Oct contract now implying an 18 bps average for the rest of the month, and Nov and Dec maturities implying between 12 and 14 basis point averages for the rest of the year, increasing by 3 to 4 basis points from last Monday. Separately, contacts note that overnight GC repo markets are reflecting incremental debt ceiling concerns on the margin though liquidity conditions remain robust. Consistent with this, Treasury GC repo for regular settlement tomorrow was last quoted at roughly 12 basis points, about 2 to 3 basis points above today's range.
- Thus far, there have been limited signs the government shutdown or concerns over the debt ceiling have impacted market functioning of coupon Treasuries. The Desk's relative value pricing model – or spline model – indicates nominal coupons most likely to experience a technical default are generally trading in-line with comparable securities with measures of market distortion – or average spline errors - within ranges witnessed since mid-year. That said, some suggest dislocations could increase in severity as the debt ceiling deadline nears. In the week before the deadline in 2011, the magnitude of spline errors increased for all nominal Treasuries.

**Many thanks to TMP and DMM for their contributions.

██████████
Markets Group
Federal Reserve Bank of New York
Direct: ██████████
BlackBerry: ██████████
Trading Desk: ██████████

From: [REDACTED]
Sent: Wednesday, October 09, 2013 9:11 AM
To: Potter, Simon; Dudley, William; Bergin, James P; Dzina, Richard; Stichnoth, Roseann
Subject: From yesterday's press conference (references to prioritization)

BSW 10/8/2013 17:01: Who Gets Paid First If the U.S. Hits the Debt Ceiling?

Obama wouldn't say whether he'd accept a deal that pays bondholders before other obligations

By Karen Weise

Oct. 8 (Bloomberg Businessweek) -- President Obama had plenty of strong statements during his lengthy press conference today. He said the country would face a "very deep recession" if Congress doesn't raise the debt ceiling. He said Republicans are holding the country "hostage" and that they can't just "wish away chaos." But his words were squishier on one topic: whether he'd accept a deal that prioritizes which debts the U.S. will repay first.

This is the idea that the government can technically avoid a default if it pays bondholders before paying back obligations such as Social Security benefits. When Bloomberg's Julianna Goldman asked Obama about whether he's going along with such a plan, the president wouldn't directly answer the question: "I am going to continue to be very hopeful that Congress doesn't put us in that position," he said.

That's not to say he was warm to the idea. Obama said the country's credit rating would suffer and borrowing costs would rise if the markets think the government is "not paying all of our bills on time" — "all" being the operative word. That echoes the sentiment top Wall Street executives have been telling lawmakers, according to a front-page story in today's Wall Street Journal . Obama said the government's obligations include payments to contractors, benefits for veterans, and Social Security checks for seniors.

Later, when pressed again on the topic, Obama said he didn't want to say too much because he knows every word he mentioned would be parsed for meaning. He's right—just look at the Federal Reserve's struggles to communicate, or this very blog post. Obama said he'd prefer to defer to Treasury Secretary Jack Lew, who's scheduled to testify in the Senate on Thursday. He said Lew will make a "formal presentation" then and address the issue. So mark your calendar. Thursday is now officially "debt prioritization" day.

-0- Oct/08/2013 21:01 GMT

From: Matthew.Rutherford [REDACTED]
Sent: Wednesday, October 09, 2013 8:23 PM
To: [REDACTED]
Subject: Fw: Reuters: U.S. Treasury, Fed planning for possible default -source

----- Original Message -----

From: [REDACTED]
Sent: Wednesday, October 09, 2013 07:59 PM
To: _DL_DL News; _DL_FYI
Subject: Reuters: U.S. Treasury, Fed planning for possible default -source

U.S. Treasury, Fed planning for possible default -source Thu, Oct 10 04:00 AM IST

* Contingencies eyed if Congress fails to raise debt limit

* Treasury, Fed officials focused on default options

* Top Republican says Congress should see plans

* Officials stress failure to raise debt limit disastrous

By Tim Reid and Jonathan Spicer

WASHINGTON/NEW YORK, Oct 9 (Reuters) - U.S. Treasury and Federal Reserve officials worried about the growing possibility of a catastrophic default are crafting contingency plans to mitigate the economic fallout if Congress fails to extend America's borrowing authority, a source familiar with the plans said.

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The specifics of their planning remain unclear, but the source said an area of special focus is a key bank funding market known as the tri-party repurchase agreement, or repo, market, where banks often use Treasury bills, notes and bonds as collateral for short-term loans from other banks and big money market funds.

Some of the earliest alarm bells for the 2008 financial crisis emerged from this market, and on Wednesday interest rates demanded for accepting some T-bills as collateral shot to the highest in five months. Were the repo market to seize, easy access to cash by banks to meet short-term funding needs could be jeopardized, and that could have far-ranging implications for credit markets and the economy.

The source, who asked not to be identified, said officials refused to divulge details of the plans because they do not want to suggest to investors and Republican Congress members that the U.S. government can muddle through if the debt limit is not raised. Officials insisted there was no way to avoid an eventual default if the debt limit is not raised.

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The 2011 backup plan also included "possible actions that the Federal Reserve could take if disruptions to market functioning posed a threat to the Federal Reserve's economic objectives."

This message was secured in transit. REP-ZFRSSE

From: Logan, Lorie
Sent: Wednesday, October 09, 2013 8:31 PM
To: Potter, Simon; Clouse, James A(ARC); Stiroh, Kevin; [REDACTED]; Bergin, James P
Subject: Fw: Reuters: U.S. Treasury, Fed planning for possible default -source

----- Original Message -----

From: Matthew.Rutherford [REDACTED] [mailto:Matthew.Rutherford [REDACTED]]
Sent: Wednesday, October 09, 2013 08:22 PM Eastern Standard Time
To: Frost, Joshua; Logan, Lorie
Subject: Fw: Reuters: U.S. Treasury, Fed planning for possible default -source

----- Original Message -----

From: [REDACTED]
Sent: Wednesday, October 09, 2013 07:59 PM
To: _DL_DL News; _DL_FYI
Subject: Reuters: U.S. Treasury, Fed planning for possible default -source

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From: Frost, Joshua
Sent: Wednesday, October 09, 2013 8:32 PM
To: Logan, Lorie
Subject: FW: Reuters: U.S. Treasury, Fed planning for possible default -source -FRSONLY-

INTERNAL FR

Lovely. I'm sure this won't help on the sharing front.

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This message was secured in transit. REP-ZFRSSE

From: Frost, Joshua
Sent: Wednesday, October 09, 2013 8:42 PM
To: NY MKT MOMA Market Monitoring
Subject: Reuters: U.S. Treasury, Fed planning for possible default: source -FRSONLY-

U.S. Treasury, Fed planning for possible default: source
6:31pm EDT

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(Reporting by Tim Reid and Jonathan Spicer; Additional reporting by Jason Lange; Editing by David Gregorio)

From: [REDACTED]
Sent: Wednesday, October 09, 2013 8:52 PM
To: NY MKT CCM Staff
Subject: Fw: Reuters: U.S. Treasury, Fed planning for possible default: source -FRSONLY-

Colleagues,

Until we hear more definitively, this article provides some useful guidance on Fed/Tsy preparations.

You would note some commentary that a seizing up of the repo market could have implications for credit markets and economic growth.

Best,
[REDACTED]

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To: NY MKT MOMA Market Monitoring
Subject: Reuters: U.S. Treasury, Fed planning for possible default: source -FRSONLY-

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(Reporting by Tim Reid and Jonathan Spicer; Additional reporting by Jason Lange; Editing by David Gregorio)

From: [REDACTED]
Sent: Wednesday, October 09, 2013 8:59 PM
To: [REDACTED]; NY MKT CCM Staff
Subject: Re: Reuters: U.S. Treasury, Fed planning for possible default: source -FRSONLY-

Hi all,

Just to be clear, I don't think Rob means that this should serve as guidance about what we can say to market participants about any potential planning. We should just say we can't comment on any of these matters for now.

[REDACTED]

[REDACTED]
Director, Mortgage and Capital Markets
Federal Reserve Bank of New York
[REDACTED]

From: [REDACTED]
Sent: Wednesday, October 09, 2013 08:51 PM
To: NY MKT CCM Staff
Subject: Fw: Reuters: U.S. Treasury, Fed planning for possible default: source -FRSONLY-

Colleagues,

Until we hear more definitively, this article provides some useful guidance on Fed/Tsy preparations.

You would note some commentary that a seizing up of the repo market could have implications for credit markets and economic growth.

Best,

[REDACTED]

From: Frost, Joshua
Sent: Wednesday, October 09, 2013 08:41 PM
To: NY MKT MOMA Market Monitoring
Subject: Reuters: U.S. Treasury, Fed planning for possible default: source -FRSONLY-

U.S. Treasury, Fed planning for possible default: source
6:31pm EDT

By Tim Reid and Jonathan Spicer

WASHINGTON/NEW YORK (Reuters) - U.S. Treasury and Federal Reserve officials worried about the growing possibility of a catastrophic default are crafting contingency plans to mitigate the economic fallout if Congress fails to extend America's borrowing authority, a source familiar with the plans said.

With just eight days before the Treasury Department says the U.S. will hit its \$16.7 trillion borrowing limit, lawmakers and the White House remain far from a deal to extend it. Officials are examining what options might be available to calm financial markets if a U.S. debt payment is missed.

The specifics of their planning remain unclear, but the source said an area of special focus is a key bank funding market known as the tri-party repurchase agreement, or repo, market, where banks often use Treasury bills, notes and bonds as collateral for short-term loans from other banks and big money market funds.

Some of the earliest alarm bells for the 2008 financial crisis emerged from this market, and on Wednesday interest rates demanded for accepting some T-bills as collateral shot to the highest in five months. Were the repo market to seize, easy access to cash by banks to meet short-term funding needs could be jeopardized, and that could have far-ranging implications for credit markets and the economy.

The source, who asked not to be identified, said officials refused to divulge details of the plans because they do not want to suggest to investors and Republican Congress members that the U.S. government can muddle through if the debt limit is not raised. Officials insisted there was no way to avoid an eventual default if the debt limit is not raised.

On Thursday, U.S. Treasury Secretary Jack Lew is scheduled to testify before the Senate Finance Committee and is likely to be grilled about the contingency plans by Senator Orrin Hatch, the panel's top Republican.

The source said officials believe their plans can only try to mitigate fallout they expect to be catastrophic if Congress fails to raise the debt limit by October 17, the date Treasury estimates it will run out of additional borrowing authority.

Against that anxious backdrop, officials are trying to gauge which Treasury securities pledged as collateral would cause the most concern in a default, the source said.

Many of the discussions are between Treasury officials in the Office of Debt Management and the Federal Reserve Bank of New York, which acts as the government's agent in the markets. The New York Fed's Fedwire Securities Service is used to settle loans in the \$5-trillion repo market.

Spokeswomen for the Treasury and the New York Fed declined to say if contingency plans were being discussed or in place. The Treasury representative referred to remarks made by Lew in a recent letter to Congress. Lew said: "There are no other legal and prudent options to extend the nation's borrowing authority."

In another recent letter to Congress, Lew wrote: "Any plan to prioritize some payments over others is simply default by another name." He added: "There is no way of knowing the damage any prioritization plan would have on our economy and financial markets."

In the run-up to the 2011 debt-limit crisis, the Treasury looked at a range of options including delaying payments, asset sales and prioritizing payments, according to an inspector general's report last year.

According to the report, "Treasury officials determined that there is no fair or sensible way to pick and chose among the many bills that come due every day." The U.S. Treasury makes roughly 80 million payments a month.

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(Reporting by Tim Reid and Jonathan Spicer; Additional reporting by Jason Lange; Editing by David Gregorio)

From: [REDACTED]
Sent: Wednesday, October 09, 2013 9:04 PM
To: Dudley, William; Checki, Terrence
Cc: [REDACTED]
Subject: Fw: Reuters: U.S. Treasury, Fed planning for possible default -source

Fyi.

----- Original Message -----

From: Logan, Lorie
Sent: Wednesday, October 09, 2013 08:31 PM
To: Potter, Simon; Clouse, James A(ARC); Stiroh, Kevin [REDACTED] Bergin, James P
Subject: Fw: Reuters: U.S. Treasury, Fed planning for possible default -source

----- Original Message -----

From: [REDACTED]@treasury.gov [mailto:[REDACTED]@treasury.gov]
Sent: Wednesday, October 09, 2013 08:22 PM Eastern Standard Time
To: [REDACTED]
Subject: Fw: Reuters: U.S. Treasury, Fed planning for possible default -source

----- Original Message -----

From: [REDACTED]
Sent: Wednesday, October 09, 2013 07:59 PM
To: _DL_DL News; _DL_FYI
Subject: Reuters: U.S. Treasury, Fed planning for possible default -source

U.S. Treasury, Fed planning for possible default -source Thu, Oct 10 04:00 AM IST
* Contingencies eyed if Congress fails to raise debt limit

- * Treasury, Fed officials focused on default options
- * Top Republican says Congress should see plans
- * Officials stress failure to raise debt limit disastrous

By Tim Reid and Jonathan Spicer

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This message was secured in transit. REP-ZFRSSE

From: Bergin, James P
Sent: Wednesday, October 09, 2013 10:17 PM
To: Dudley, William; Gutt, Jack
Subject: Fw: Reuters: U.S. Treasury, Fed planning for possible default -source

----- Original Message -----

From: Logan, Lorie
Sent: Wednesday, October 09, 2013 08:31 PM
To: Potter, Simon; Clouse, James A(ARC); Stiroh, Kevin; [REDACTED] Bergin, James P
Subject: Fw: Reuters: U.S. Treasury, Fed planning for possible default -source

----- Original Message -----

From: Matthew.Rutherford [REDACTED] [mailto:Matthew.Rutherford [REDACTED]]
Sent: Wednesday, October 09, 2013 08:22 PM Eastern Standard Time
To: Frost, Joshua; Logan, Lorie
Subject: Fw: Reuters: U.S. Treasury, Fed planning for possible default -source

----- Original Message -----

From: [REDACTED]
Sent: Wednesday, October 09, 2013 07:59 PM
To: _DL_DL News; _DL_FYI
Subject: Reuters: U.S. Treasury, Fed planning for possible default -source

U.S. Treasury, Fed planning for possible default -source Thu, Oct 10 04:00 AM IST

* Contingencies eyed if Congress fails to raise debt limit

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* Top Republican says Congress should see plans

* Officials stress failure to raise debt limit disastrous

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This message was secured in transit. REP-ZFRSSE

From: Gutt, Jack
Sent: Wednesday, October 09, 2013 10:33 PM
To: Bergin, James P
Subject: Re: Reuters: U.S. Treasury, Fed planning for possible default -source

Thanks. I was just reading the piece.

----- Original Message -----

From: Bergin, James P
Sent: Wednesday, October 09, 2013 10:16 PM Eastern Standard Time
To: Dudley, William; Gutt, Jack
Subject: Fw: Reuters: U.S. Treasury, Fed planning for possible default -source

----- Original Message -----

From: Logan, Lorie
Sent: Wednesday, October 09, 2013 08:31 PM
To: Potter, Simon; Clouse, James A(ARC); Stiroh, Kevin [REDACTED]; Bergin, James P
Subject: Fw: Reuters: U.S. Treasury, Fed planning for possible default -source

----- Original Message -----

From: Matthew.Rutherford [REDACTED] [mailto:Matthew.Rutherford@REDACTED]
Sent: Wednesday, October 09, 2013 08:22 PM Eastern Standard Time
To: [REDACTED]
Subject: Fw: Reuters: U.S. Treasury, Fed planning for possible default -source

----- Original Message -----

From: [REDACTED]
Sent: Wednesday, October 09, 2013 07:59 PM
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This message was secured in transit. REP-ZFRSSE

From: [REDACTED]
Sent: Thursday, October 10, 2013 8:09 AM
To: NY MKT MOMA Market Monitoring
Subject: Treasury Secretary Lew Testimony Headlines -FRSONLY-

*LEW CITES RISE IN SHORT-TERM TREASURY YIELDS	BN	08:00
*LEW SEES 'IRREVOCABLE DAMAGE' FROM PRIORITIZING PAYMENTS	BN	08:00
*LEW TESTIFIES TO SENATE FINANCE COMMITTEE ON U.S. DEBT CEILING	BN	08:00
*LEW SAYS DEFAULT COULD HURT VALUE DOLLAR, STOCKS COULD TUMBLE	BN	08:00
*LEW SAYS BIGGEST RISK TO U.S. GROWTH IS 'MANUFACTURED CRISIS'	BN	08:00
*LEW SAYS GOVT HAS NUMEROUS LARGE PAYMENTS SHORTLY AFTER OCT. 17	BN	08:00
*LEW: DEBT-LIMIT INACTION THREATENS SOCIAL SECURITY PAYMENTS	BN	08:00
*LEW WARNS DEBT-LIMIT 'UNCERTAINTY' STARTING TO STRESS MARKETS	BFW	08:00

[REDACTED]
Federal Reserve Bank of New York
Markets Group
Direct: [REDACTED]
Trading Desk: [REDACTED]
[REDACTED]@ny.frb.org

From: [REDACTED]
Sent: Thursday, October 10, 2013 11:35 AM
To: Nelson, Michael
Subject: Today's Senate Finance Hearing on the Debt Limit with Treasury Secretary Lew

This morning, the Senate Committee on Finance held a hearing on the debt limit. The sole witness was Treasury Secretary Jack Lew.

In his opening statement, Committee Chairman Max Baucus (D-Mont.) said that a default on the nation's debt would have "dire consequences." Decrying what he referred to as "the extremism of a small group of members in the House of Representatives," Sen. Baucus urged fellow lawmakers to act quickly to raise the debt limit. "Before any debate, before any deliberation, we need to reopen the government and pay the nation's bills, no strings attached," he said. Sen. Baucus then drew attention to a bill he introduced early this week which would extend the nation's borrowing authority through 2014. Calling the measure a "short-term solution," he said it would at least allow the country to avoid a "catastrophic default."

Committee Ranking Member Orrin Hatch (R-Utah) questioned the Administration's line on the debt ceiling. "It is disconcerting to have Administration officials, including you, publicly questioning sentiments of Americans and financial market participants, and suggesting that people may be too calm in an apparent effort to whip up uncertainty in the markets," he told Secretary Lew. Sen. Hatch said that the President has been unwilling to have a "mere conversation" on entitlement reform. "If the Obama Administration won't negotiate on entitlements in the context of the debt limit, when will they negotiate on entitlements?" he asked rhetorically.

In his testimony, Treasury Secretary Lew did not mince words, stating that a failure to raise the debt ceiling "could do irrevocable harm to economy." He warned that many of the economic gains since 2008 could be undone and that the impact, which would be felt across the country, would have a serious repercussions for the global economy. Secretary Lew also addressed claims by some members of the Republican Party that a default could be avoided if Treasury "prioritizes" interest payments on the debt. "These 'prioritization' proposals do not solve the problem," he said. They would force the Administration to make unthinkable choices, such as deciding whether to send out Social Security payments or to pay veterans' benefits. Calling the current path "irresponsible and reckless," Secretary Lew reiterated the Administration's willingness to negotiate over the future direction of long-term fiscal policy, including putting together a comprehensive and balanced package of deficit reduction proposals, but only *after* the debt ceiling is raised. "The simple truth is Congress must get this done," he concluded. "The time to do it is now before any more damage is done to the U.S. economy."

In the abbreviated question and answer period that followed, committee members hewed largely to party lines.

Both sides asked about the idea of "prioritization." Responding to a question from Sen. Baucus, Secretary Lew called prioritization "default by another name" He explained that there's no existing method for choosing between different obligations. "It was never the policy of this government to be in the position that we would be in if we couldn't pay our bills," he said.

Sen. Pat Toomey (R-Pa.) asked Secretary Lew for his assurance that if the debt ceiling is not raised, the Treasury Department will take the necessary steps to ensure that it does not miss a single payment on a U.S. Treasury security. "The only way to make sure that we can pay all of our obligations is for Congress to act and raise the debt limit," respond Secretary Lew. "There is no good solution if Congress fails to raise the debt limit."

Several Republican senators asked how much and how long of a debt ceiling increase the President is seeking. Secretary Lew stated repeatedly that those decisions are up to Congress but that a longer-term increase is better because it promotes stability. When asked by Sen. Hatch if the President would sign a two week extension with no strings attached, Secretary Lew said he would need to see the proposal before offering an opinion. Sen. Bill Nelson (D-Fla.) stated, however, that such a short-term increase would be counterproductive.

From: Nelson, Michael
Sent: Thursday, October 10, 2013 11:36 AM
To: [REDACTED]
Subject: RE: Today's Senate Finance Hearing on the Debt Limit with Treasury Secretary Lew

Great
Please send out

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Committee Ranking Member Orrin Hatch (R-Utah) questioned the Administration's line on the debt ceiling. "It is disconcerting to have Administration officials, including you, publicly questioning sentiments of Americans and financial market participants, and suggesting that people may be too calm in an apparent effort to whip up uncertainty in the markets," he told Secretary Lew. Sen. Hatch said that the President has been unwilling to have a "mere conversation" on entitlement reform. "If the Obama Administration won't negotiate on entitlements in the context of the debt limit, when will they negotiate on entitlements?" he asked rhetorically.

In his testimony, Treasury Secretary Lew did not mince words, stating that a failure to raise the debt ceiling "could do irrevocable harm to economy." He warned that many of the economic gains since 2008 could be undone and that the impact, which would be felt across the country, would have a serious repercussions for the global economy. Secretary Lew also addressed claims by some members of the Republican Party that a default could be avoided if Treasury "prioritizes" interest payments on the debt. "These 'prioritization' proposals do not solve the problem," he said. They would force the Administration to make unthinkable choices, such as deciding whether to send out Social Security payments or to pay veterans' benefits. Calling the current path "irresponsible and reckless," Secretary Lew reiterated the Administration's willingness to negotiate over the future direction of long-term fiscal policy, including putting together a comprehensive and balanced package of deficit reduction proposals, but only *after* the debt ceiling is raised. "The simple truth is Congress must get this done," he concluded. "The time to do it is now before any more damage is done to the U.S. economy."

In the abbreviated question and answer period that followed, committee members hewed largely to party lines.

Both sides asked about the idea of "prioritization." Responding to a question from Sen. Baucus, Secretary Lew called prioritization "default by another name" He explained that there's no existing method for choosing between different

obligations. "It was never the policy of this government to be in the position that we would be in if we couldn't pay our bills," he said.

Sen. Pat Toomey (R-Pa.) asked Secretary Lew for his assurance that if the debt ceiling is not raised, the Treasury Department will take the necessary steps to ensure that it does not miss a single payment on a U.S. Treasury security. "The only way to make sure that we can pay all of our obligations is for Congress to act and raise the debt limit," respond Secretary Lew. "There is no good solution if Congress fails to raise the debt limit."

Several Republican senators asked how much and how long of a debt ceiling increase the President is seeking. Secretary Lew stated repeatedly that those decisions are up to Congress but that a longer-term increase is better because it promotes stability. When asked by Sen. Hatch if the President would sign a two week extension with no strings attached, Secretary Lew said he would need to see the proposal before offering an opinion. Sen. Bill Nelson (D-Fla.) stated, however, that such a short-term increase would be counterproductive.

From: [REDACTED]
Sent: Thursday, October 10, 2013 11:38 AM
To: NY Hearings Updates
Subject: Today's Senate Finance Hearing on the Debt Limit with Treasury Secretary Lew

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From: [REDACTED]
Sent: Thursday, October 10, 2013 6:14 PM
To: [REDACTED] NY MKT Moma Dirs; NY MKT
MOMA Market Monitoring [REDACTED]

Subject: Debt Limit Update 10.10.2013 -FRSONLY-

The debt limit dashboard can be found at the following link:
https://marketsource.ny.frb.org/publish/view/Debt_Limit_Dashboard_101013.pdf

Political Developments

- Although there was no progress made today on a continuing resolution to fund the federal government and end the current shutdown, now in its tenth day, House Republican leaders have agreed on a **plan that would extend the country's debt limit by six-weeks**, though the bill would not end the shutdown. Specifically, the House is expected to vote soon on a bill that will suspend the debt limit until November 22, thus giving Congress more time to debate a longer-term solution. Of note, however, the bill would also place restrictions on the Treasury Department against using any additional "extraordinary measures" – though it's unclear exactly how this would be achieved. Effectively, such legislation would simply extend the date that the Treasury Department exhausts its "extraordinary measures" from October 17 to November 22. Although President Obama and House Democrats have both indicated likely support for the extension, Senate Democrats are more wary, suggesting they would not negotiate a broad budget deal until the government shutdown ends. Additionally, Senate Democrats are still expected to push forward their own legislation that would raise the debt ceiling through December 2014. However, analysts suggest the Senate plan has a low likelihood of succeeding as it does not address deficit reductions steps demanded by Republicans, including lowering the costs of entitlement programs. An initial test vote on the proposed Senate legislation could occur as early as Saturday.
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Market Impact

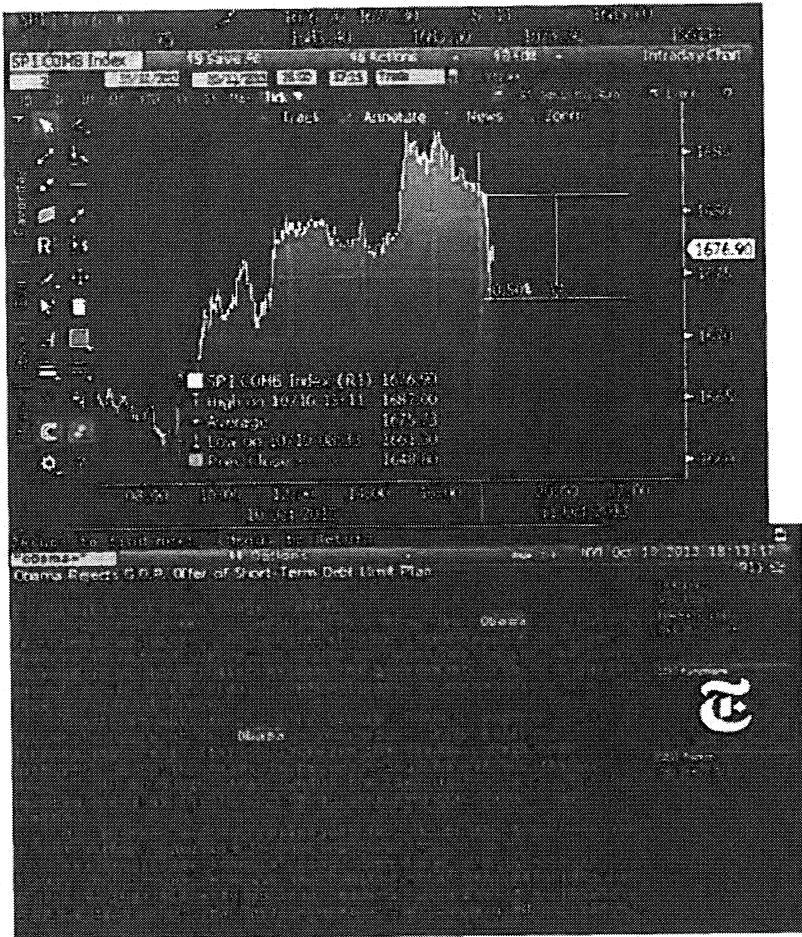
- Perceived optimism over a potential short-term resolution that would forestall the looming debt ceiling was cited by market participants across various asset classes as contributing to today's sharp rise in risky assets. Most global equity indices traded sharply higher on the news, with the S&P 500 index increasing more than 2 percent on the day. The DXY dollar index was also modestly higher today, while the cost of insuring U.S. debt through credit default swaps (CDS) over one year declined modestly to 59 basis points.
- Amid the development, very near dated Treasury bill rates out to mid-November maturities declined by as many as 17 basis points, while in contrast, late November and December bills that would presumably be prone to debt ceiling risks under such an agreement rose by as many as 8 basis points. Dealers reported a notable pickup in demand for very short bills from a variety of real money accounts, central banks, and some money market funds, although they cautioned that liquidity remains strained in both bills and short-dated coupons. In regards to the cheapening in late November and December bills, Dealers did not report particularly strong flows backing the price action.
- Overnight Treasury GC repo opened around 23 basis points and generally transacted around that level over the session. The GCF Repo indices for Treasury, agency and agency MBS collateral printed at 23, 24, and 25 basis points. Market participants continued to note reports of amending documentation to exclude certain securities from GC repo eligibility. Reports of a proposal for a short-term extension to the debt ceiling deadline prompted a moderation of secured funding conditions, with implied rates on near-dated Treasury GCF futures declining as many as 3 basis points. Contacts also reported an easing of conditions in term GC repo markets, with trades to November 15 quoted at 15 basis points. Regular settlement trades for Treasury GC repo are centered at 18 basis points, pointing to a decline in overnight repo rates in tomorrow's trading session. Unsecured money markets continue to operate normally.

**Many thanks to DMM and TMP for their contributions.

██████████
Markets Group
Federal Reserve Bank of New York
Direct: ██████████
BlackBerry: ██████████
Trading Desk: ██████████

From: [REDACTED]
Sent: Thursday, October 10, 2013 6:35 PM
To: [REDACTED]
Subject: FW: Debt Limit Update 10.10.2013 -FRSONLY-

Some air coming out of the sails for the tentative agreement:



From: [REDACTED]
Sent: Thursday, October 10, 2013 5:14 PM
To: [REDACTED] NY MKT Moma Dirs; NY MKT MOMA Market Monitoring;

Subject: Debt Limit Update 10.10.2013 -FRSONLY-

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Trading Desk: [REDACTED]



Obama Rejects G.O.P. Offer of Short-Term Debt Limit Plan

911

BY JACQUELYNNE KILMER AND KIMBERLY D. PETERSON

WASHINGTON (AP) — President Obama on Thursday rejected a proposal from political conservatives to extend the nation's borrowing authority, saying it would not have stopped the government's debt ceiling from rising. The first term of Republican Mitt Romney's plan would have raised the debt ceiling to \$1.6 trillion.

Obama

Obama's rejection of the Romney plan was a surprise, since the White House at the time had been expected to accept the offer to increase the Treasury Department's authority to borrow money to pay existing obligations through new debt in exchange. They sought the president's consent to negotiate a deal for long-term debt reduction and a new ceiling.

Mr. Romney and his supporters left little doubt at the time that they would oppose any such deal.

The Republican proposal could have averted a default, but it would have raised the debt ceiling and limited the amount of new debt that could be issued. It also would have required a large portion of the new debt to be sold to investors.

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Politics (10/1)

From: [REDACTED]
Sent: Thursday, October 10, 2013 10:57 PM
To: NY FISG - Senior Officers; NY FISG FMIF Management; [REDACTED]
Subject: FW: Debt Limit Update 10.10.2013 -FRSONLY-

Today's update from Markets.

From: [REDACTED]
Sent: Thursday, October 10, 2013 6:14 PM
To: [REDACTED] NY MKT Moma Dirs; NY MKT MOMA Market Monitoring;

Subject: Debt Limit Update 10.10.2013 -FRSONLY-

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Trading Desk: ██████████

Appendix 7

Preparing for a Potential Debt Ceiling Event (October 3, 2013)

Preparing for a Potential Debt Ceiling Event

Risk Secretariat

October 3, 2013



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1

CONTAINS CONFIDENTIAL SUPERVISORY INFORMATION

Level Set – Fiscal Issues

- Government Shutdown -10/1/13
 - Passage of continuing resolution or a budget required to fund government operations
- Debt Ceiling
 - Inability of Treasury to issue new debt and lack of funding to make government payments such as social security, military salaries, and principal and interest (P&I) payments on debt
 - Hit ceiling 5/19/13, have been using extraordinary measures to make payments
 - Treasury debt, principal amount can be matured and re-issued
 - Extraordinary measures will be exhausted on October 17 (Public – letter to Congress)
 - Currently project Treasury can cover payments until Oct. 23 (NOT Public)
 - Absolutely will not be able to meet Nov. 1 payments

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Federal Reserve Responsibilities

- Fiscal Agent to the U.S. Treasury
 - Treasury instructs the Federal Reserve
 - Conducts Treasury auctions
 - Operates Fedwire Securities Service, issues Treasury securities, pays interest and redeems maturing securities
 - Facilitates government payments through the Treasury General Account
 - Overnight overdrafts to Treasury are not permissible
- Discount Window – lender to depository institutions
- FOMC and Open Market Operations
- Financial Stability Mandate
- Financial Institution Supervision

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3

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Actions Taken – Supervisory Role

In 4Q2012 into early 2013, conducted outreach to all LISCC and several other firms around debt ceiling contingency planning

- Goals of outreach:
 - Raise awareness of publically available information regarding potential handling of delayed principal and interest payments and encourage securities industry to prepare best practices of how to operationally prepare for such an event, e.g., establish trading conventions in advance
 - Understand LISCC firm’s basic planning with emphasis on decisions that must be made days prior to the actual determination that Treasury will have a delayed payment
 - Non-prescriptive approach to firm preparations
 - Convey back to Federal Reserve staff the major constraints of market participants to help inform decision making

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Debt Ceiling – P&I Payments

- All decisions regarding payments are made by Treasury
- May-June 2012 Treasury Market Practices Group discussed treatment of delayed P&I by Fedwire Securities and published minutes
 - <http://piapps.ny.frb.org/tmpg/meetings.html>
- Procedure discussed:
 - Decision made by Treasury the night before around 8:30 pm that next day's debt payments cannot be funded
 - Fedwire Securities rolls forward the maturity date on securities due to mature on the next business day
 - Fedwire end-of-day (e-o-d) process creates interest payment wires for holders of record on original payment date and releases e-o-d files to participants
 - Fedwire Securities opens as usual at 8:30 am, interest payments are not released (paid); Treasury securities originally scheduled to mature reflect new maturity date and are transferable
 - Principal payments will be to the holder of record when Treasury can make the payment; Interest payments are to the holder on original maturity date
 - No additional interest will accrue if payments are delayed; payments will be the same as they would if paid when originally due

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Debt Ceiling – Supervisory Matters

- Impact can be broad reaching:
 - Potential delay in receipt of principal and interest (P&I) on Treasury securities – implement process changes
 - Delayed receipt of ACH payment instructions for customers
 - Uncertainty in valuation/liquidity of specific Treasury securities
 - Difficulty calculating net asset value of funds
 - Potential for increased credit need (or overdrafts) of both retail and commercial clients due to delays in government payments
 - Potential balance sheet growth as customers increase cash holdings

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Debt Ceiling – Contingency Plans

- Potential Actions supervised firms or counterparties may take in advance of any delay in Treasury payments
 - Avoid owning or accepting as collateral Treasury securities with payment of P&I scheduled during period in question
 - Financial Market Infrastructures could restrict eligible collateral
 - Increase cash on hand of money market mutual funds
 - Notify custody clients that P&I will be paid on an “actual” basis, i.e., when received rather than “contractual” basis
 - Shifts processing to intra-day vs. overnight
 - Generally requires advance notice, e.g., 5 days before switch
 - Determine treatment of pending Treasury receipts for forward settlement trading limits
 - Potentially constrain clients trading activity

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Discussions with Infrastructure BNYM, JPMC and FICC

- Good news – all three can support the proposed procedures of rolling forward the date.
 - FICC needs final money (dirty price) for trades.
- Significant concern with a weekend scenario (funding shortfall projected for Monday) and the lack of a Treasury decision until Sunday.
- Systems can handle scenario with normal end-of-day processing, but failure of Treasury to fund and to pay on scheduled payment date.
 - These unpaid securities would become receivables; non-transferable and value is uncertain, but likely default to zero value in systems.
 - Note impact on daily NAVs of funds holding these securities.

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Potential Supervisory Communication

- Interagency guidance is drafted and could be issued to clarify:
 - The risk weights of U.S. government securities for risk-based capital purposes will not change, and those securities will not be adversely classified or criticized by examiners. Regulation W will also be unaffected.
 - If market conditions lead to unusually large deposit inflows or draws on existing lines of credit causing significant balance sheet growth triggering a temporary decline in regulatory capital ratios, management should contact its primary federal regulator to discuss how to address such developments.
 - If customers are adversely affected by developments related to the federal debt, the federal banking agencies encourage reasonable and prudent actions that could help meet the critical financing needs of their affected customers.

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Other Potential FRS Communications

- Eligibility of Treasury Securities that have missed a payment for discount window and open market operations
- Communication of any open market activity to improve government securities market functioning

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Next Steps

- Use supervisory authority to have discussions with firms—
treat as confidential supervisory information.
 - Avoid headline risk, but facilitate information flow.
- Follow-up with clearing banks, FICC, select LISCC dealers
to encourage discussions at December SIFMA meetings –
in progress.
- Reach out to all LISCC firms
 - Focus on dealers first.
 - Target initial discussion with firms before year-end.
- Reach out to LCBO and FFI for liaison to work with us and
communicate back to their institutions.

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APPENDIX

PRINCIPAL & INTEREST DETAIL

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Example 1 – Wed., October 24, 2013

(theoretical – actual date unknown)

- Assume inability to fund occurs on 10/24/13.
- Evening of 10/23/13, Treasury determines will not have funding; communication between 8-9 pm.
- For security CUSIP ABC with 10/24/13 maturity date – change date to next business day – Thursday, 10/25/13.
- Fedwire runs end of day process (delayed from 7 pm). Assures delayed (missed) principal payments.
- Send to Fedwire Securities customers the information on interest payments due on 10/24/13.
- 8:05 am on 10/24/13– no Treasury payments are made.
- 8:30 am on 10/24/13 – Fedwire Securities opens and the CUSIP ABC exists and is transferable on Fedwire Securities.
- Subsequent days would repeat this process until Treasury determines it has funding to make payments.
- On date funding is available, multiple payments will be paid – interest (potentially one per day) and principal to holders the end of business the day before actual payment. Payments are equal to what would have been paid if not delayed, no additional interest.

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Debt Ceiling – P&I Payments

- Alternative scenario:
 - The night before the Debt Ceiling date, the Treasury cannot determine that the next day's debt payments will or will not be funded.
 - Fedwire Securities must begin the end of day process by approximately 9:00 pm (delayed from 7 pm).
 - End of Day process runs normally, creating principal and interest payment wires for holders of record on original payment date.
 - This provides Treasury the opportunity to pay timely if funded.
 - Fedwire Securities opens as usual at 8:30 am, principal & interest payments are not released (paid); securities are matured and not transferable.
 - Holders of securities await payment until funded by Treasury; valuation of receivable (payment due) from Treasury is unknown.

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CONTAINS CONFIDENTIAL SUPERVISORY INFORMATION

Example 2 – Wed., Oct. 24, 2013

(theoretical – actual date unknown)

- Assume inability to fund occurs on 10/24/13.
- Evening of 10/23/13 about 8:30 PM, Treasury does not have funding, but believes it will may have funding before close of business 10/24/13.
- Fedwire runs end of day process (delayed from 7 pm). Matures security CUSIP ABC and creates payment instructions. Cannot be reversed.
- Send to Fedwire Securities customers the information on principal and interest (P&I) payments due on 10/24/13 (normal end-of-day file).
- 8:05 am on 10/24/13– no Treasury payments are made unless funded.
- 8:30 am on 10/24/13 – Fedwire Securities opens and the CUSIP ABC maturing on 10/24/13 is not transferable on Fedwire Securities.
- If Treasury attains funding on 10/24/13 business day, P&I due would be paid.
- If Treasury does not acquire funding on 10/24/13 payments will be withheld and holders of CUSIP ABC have a receivable due from Treasury.
- P&I on CUSIP ABC will be paid when funds are available from Treasury.
- Treasury may now decide to implement the procedures from Example 1 for payments due on 10/25/13.

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Appendix 8

Summary Notes of Oct. 7 Debt Ceiling Meeting (October 8, 2013)

From: Baum, Anne
Sent: Tuesday, October 08, 2013 7:35 AM
To: [REDACTED]
Subject: Re: Summary - Debt Ceiling Meeting -FRSONLY-

Thanks!

From: [REDACTED]
Sent: Monday, October 07, 2013 11:22 AM
To: Baum, Anne
Subject: Summary - Debt Ceiling Meeting -FRSONLY-

Anne

Just finished the Debt Ceiling meeting – there were no questions / follow ups specifically for GSS, but here’s a little flavor of the discussion points:

- Roseanne gave an overview of activities – TRSO / BOG appear to be in weekly - escalating to daily – planning meetings. There is a war room established, and it seems like the thinking remains that there will be a ‘pay all or nothing’ strategy. Projection remains that Oct. 17 is the date of hitting the ceiling, although mitigating procedures will likely start being invoked this week (10/10).
- Regarding the Treasury General Account (TGA) – there was a lot of discussion around the TGA, and the ‘batch’ mode of payments – essentially, because of this Batch mode processing, we cannot ‘prevent’ TGA accounts from going into overdraft - to do so would require an significant ‘unwinding’ of the TGA accounts that require extensive support from FSO and others, and Treasury authorization – ie – not an option. Even if this were possible, you would turn off the debiting, as well as crediting, of the accounts not selected.
- Buybacks: Preparations are proceeding, with a potential announcement Wednesday, and settlement Friday. I was concerned to hear that they hadn’t yet tested with WPO – but [REDACTED] indicated they were linking with them today.
- Discount Window: There was discussion about the possibility of allowing parties to pledge ‘frozen’ securities as collateral – the concern is whether we would have the ability protect the pledged security from being pledged elsewhere if it’s not already in the FRB’s ‘basket’

As you might expect, there was a lot of ‘rabbit hole’ discussion around the topics above, but these were the key themes.

Call with any questions!

■

Appendix 9

Agenda Topic for Sept. 30 Conference of First Vice Presidents (September 20, 2013)

From: [REDACTED]
Sent: Friday, September 20, 2013 7:49 PM
To: Dzina, Richard; Stichnoth, Roseann
Cc: [REDACTED]; Narron, James; Held, Michael
Subject: Documentation - CFVP Meeting (9/30/13) -FRSONLY-
Attachments: TRSO CFVP Consent Agenda 09302013.pptx

Consent topic #01 – TRSO Update

Final Agenda will be sent out on Monday, September 23

[REDACTED]
Business Support Analyst
Corporate Secretary's Office
FRB New York
[REDACTED]



TRSO

TREASURY RELATIONS AND SUPPORT OFFICE

TRSO Update: Fiscal Services Review and Debt Ceiling

Conference of First Vice Presidents
September 30, 2013

Restricted FR

Fiscal Agent Services Review: Purpose and Timing

- Purpose

- Based on Treasury's request letter dated July 29, 2013, the TRSO will engage with a vendor to provide recommendations for an optimal Federal Reserve Bank (FRB) fiscal agent end-state to enhance service quality, improve efficiency, and reduce overall FRB reimbursable expenses.
- The Fiscal Service will make all final decisions in defining the fiscal agent end-state.

- Timing

- TRSO to select a vendor by the end of September 2013. Kickoff meeting with the vendor and Treasury in early October.
- The vendor is expected to complete the engagement in Q1 2014.
- Treasury will provide updates to the FRS Treasury business leaders at various stages of the engagement.
- Treasury will vet the recommendations internally before sharing the fiscal agent end-state with the Federal Reserve.
- The TRSO expects the Treasury will share recommendations with the FRS in April/May 2014.

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Slide 1

Fiscal Agent Services Review: Scope

- In Scope
 - Services provided by FRBs in their role as fiscal agents for OFAS and/or Fiscal Service, which includes 35 business lines and services distributed across 11 FRBs.
- Out of Scope
 - Services provided by Treasury and/or financial agents.
 - Infrastructure and/or hosting platforms.
 - FRS Payment Systems and fiscal agent services not covered under the TRSO Services Agreement.

Fiscal Agent Services Review: Guiding Principles

- Treasury developed guiding principles to guide the FRS Fiscal Agent Services Review:
 - If the service is a shared service, can it be performed by an existing Center of Excellence;
 - The relative cost of a FRB's geographic location – generally work should be completed in lower cost cities;
 - How efficiently and effectively FRB's perform similar functions; and
 - Other factors such as availability of subject matter expertise, demonstrated senior management support and management capabilities, business continuity, proximity to critical relationships or support services.
- Treasury will consider and apply these principles to the extent practical and appropriate.
- Consultant will review guidelines and validate or propose updates as needed as part of vendor engagement

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Slide 3

Fiscal Agent Services Review: TRSO's Role

- The TRSO's role in this engagement is limited to:
 - Completing the RFP process and selecting a vendor in collaboration with Treasury;
 - Handling logistical tasks such as setting up interviews;
 - Helping to orient the vendor to the Fed System Treasury business lines; and
 - Performing a project management role, including handling the contract, tracking progress on deliverables, and managing the budget.
- The TRSO will not have any direct engagement with the vendor on the content of the vendor's analysis or recommendations.
- Treasury has designated a day-to-day point of contact and executive sponsor for the engagement. These individuals will guide the analysis and development of recommendations

Fiscal Agent Services Review: Expectations for Reserve Banks

- Data Requests
 - The vendor and Fiscal Service staff will be requesting data from each Reserve Bank, such as information about each business line, budget information, etc.
 - Three year plan financial data will be provided to the vendor
 - FSO will provide support for pulling cost data as needed
 - The data requests are time sensitive, so please respond quickly.
- Interviews
 - Each Reserve Bank will be interviewed as part of the vendor's analysis, including FVP, Treasury business leaders and potentially others.
 - Fiscal Service staff will participate in the interviews.
 - A template will be developed for Reserve Bank interviews to ensure information presented to the vendor at each Reserve Bank is consistent.

Debt Ceiling: Background

- The debt limit is imposed on Treasury by the Congress and consists of two components:
 - Debt held by the public (comprised of securities sold to outside investors); and,
 - Debt held by government accounts (primarily comprised of trust fund accounts).
- The debt limit prior to Feb 4, 2013, was \$16.394 trillion
 - The No Budget, No Pay Act of 2013, suspended the debt ceiling from February 4 through May 18, 2013, and stipulated the amount of borrowing during that period would be added to the previous debt limit
- The debt limit increased to \$16.699 trillion as of May 19, 2013.

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Slide 6

Debt Ceiling Status

- Since May, Treasury has used the extraordinary measures it has available to fund Government operations; these include:
 - Suspend issuance of State and Local Government Series Treasury securities (initiated on May 17);
 - Redeem/suspend Civil Service Retirement and Disability Fund investments;
 - Suspend G-Fund investments for the federal employee Thrift Savings Plan; and
 - Suspend Exchange Stabilization Fund investments.
- Treasury currently estimates they will exhaust the extraordinary measures in mid-to-late October.
- No deal in Congress is imminent, however, proposals for temporary government funding and suspension of the debt ceiling for a short period of time (e.g., 2-3 months) are anticipated.
- Should the extraordinary measures be exhausted, the Treasury Secretary will invoke Treasury's debt ceiling procedures and the Secretary and Fed Chairman would discuss and invoke the Fed's debt ceiling procedures.

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Slide 7

Debt Ceiling: Current Framework

- Treasury will control the flow of government payments to be processed by the FRS and will send to the FRS only those payments for processing that they have funds to cover.
 - FRS special processing procedures in a debt ceiling event will focus on Non Treasury Disbursing Offices (NTDOs). Upon direction from Treasury:
 - Fedwire funds origination for NTDOs will be taken offline and Treasury authorization will be required for processing.
 - The ACH Risk Service will be initiated for NTDOs where ACH files will be pended until authorization is received from Treasury and the NTDO that the files are ok to process.
- Several other business lines (SVC, ASAP, ITS, Letters of Credit, etc.) that involve direct debits to the TGA have developed procedures to hold/suspend these debits during a debt ceiling event as directed by Treasury.
- All other FRS Treasury business lines should operate normally during a debt ceiling event

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Slide 8

Debt Ceiling: Preparations to Date

- Impacted business functions and payment systems have reviewed and updated their debt ceiling procedures based on Treasury's current direction.
- The RPO and WPO have conducted tests with the NTDO's on the new procedures for handling payments in a debt ceiling event.
- A debt ceiling tabletop exercise was conducted in April. Impacted business functions and payment systems participated in the exercise, as well as Treasury and BOG staff.
- FRS attorneys, TRSO and BOG staff developed a matrix of key payment system decisions that Treasury must make and convey to the FRS should Treasury invoke their debt ceiling procedures.
- The CRSO, BOG, and TRSO drafted communication materials for Treasury's review. Materials include:
 - General holding statement;
 - Postings for Reserve Banks' internal and external web sites; and
 - Talking points for customer facing staff.
- Treasury is completing its own internal preparations by meeting at least weekly to develop and review their operational procedures. In addition, they have established a new payment information reporting framework with the NTDO's to obtain daily reports on expected payments activity and to provide guidance to the NTDO's on how to control the flow of their payments as needed.

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Slide 9

Debt Ceiling: Communication

- Debt Ceiling Operations calls with key Treasury and FRS stakeholders are occurring monthly – these will move to bi-weekly as a debt ceiling event becomes more likely.
- Debt Ceiling Financing status calls started in late-September and are occurring weekly. These calls will increase in frequency as the likelihood of a debt ceiling event increases.
- Nightly calls – the ‘8:00 p.m. call’ - will commence when a debt ceiling event is imminent. During these calls, Treasury senior officials will inform the FRS of their decisions for processing the following day’s payments. Participants will include senior officials from Treasury, the TRSO, WPO, RPO, CRSO and affected business areas.
- Timing of internal/external communications is TBD based on direction from Treasury and timing of the actual event.

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Appendix 10

Draft Email for President Dudley (October 7, 2013)

From: Bergin, James P
Sent: Monday, October 07, 2013 12:12 PM
To: [REDACTED]
Subject: Fw: summary of open issues -FRSONLY-

Pls print for Bill.

From: Logan, Lorie
Sent: Monday, October 07, 2013 12:02 PM
To: Stichnoth, Roseann; Potter, Simon; Krieger, Sandy; Stiroh, Kevin; Baxter, Thomas; Dzina, Richard; Bergin, James P; McConnell, Meg [REDACTED]
Subject: summary of open issues -FRSONLY-

Below is a draft e-mail for Bill related to the four points discussed this morning. Please let me know if you have any suggested edits/changes.

Bill:

At open issues, we discussed the following issues that you may want to elevate for discussion at the 1pm meeting today or with the Secretary tomorrow.

1. **Federal Reserve communications.** Treasury has indicated that they will prioritize P&I payments so that we do not need to do contingency planning for rolling a security with delayed principal payments. This would include communicating how the Fed would treat such securities in a delayed payment scenario. We may want to test Treasury's assumption. For example, there could be a shift in the political strategy (e.g., don't pay China ahead of veterans or social security recipients). Alternatively, Congress could pass legislation to change the prioritization strategy. Further, the market may not be willing to fund the rollover of maturing debt in such an environment. The Fed would like to communicate intentions about its operations. This would not eliminate market instability rising in such a delayed payment scenario but may reduce it or may reduce it even as market participants adjust the behavior ahead of such a risk of delayed payment. Further, the number of calls we are receiving about whether such securities would be eligible in the Discount Window, Fed RPs, or in the LSAPs has increased. The Fed could issue a statement outlining its intended treatment that would include planned acceptance with current haircuts. Alternatively, the Fed could include some reference of the intended treatment in the already published FAQs related to the DW or OMOs. This strategy would be more low key but allow Fed representatives to reference these facts when asked by market participants or the press.
2. **Timing of FedWire decisions.** Again, Treasury intends to prioritize P&I. However, it is important to continue to stress that if there is a significant risk of not being able to pay P&I the following day, it will be important to make the decision early. Standard operations would suggest that this would be at 6:30pm. But we recognize that Treasury is unlikely to be in position to make a decision by that time. FRBNY staff think at the latest they could go to 10:30pm but that would be with significant operational risk. Further, the market is coalescing around a 10pm decision deadline in order to be able to adjust their systems.
3. **TGA buffer.** We would like to learn more about the Treasury's thinking on the TGA buffer in their forecasts. It is essential that they have an appropriate understanding of our overdraft policy. We would like to engage them on a level for the TGA such that decisions of the next day's payments strategy are appropriately elevated. Based upon a review of the behavior of 1-day ahead forecast errors in the TGA, staff have been considering two potential options for an unconditional buffer in the TGA if policy makers prefer this approach. The first option is

a TGA target of \$3 billion. In the historical sample, this buffer would have guarded against over 99% of FRBNY's forecast errors in October and November and over 95% of errors in the full sample period. The second option, which is more conservative, would be a TGA target of \$5 billion. This value would have covered 99.4% of October/November errors and 98% of forecasts errors in the full sample period.

4. **Information flow.** It is worth noting that Treasury is facing some constraints in the amount of information they can provide to the Fed about certain key elements of their daily debt and payment flows. If they could provide us with this information, we would be able to verify the assumptions we are receiving from them about the probabilities of a buyback this week or further out the month. Additionally, a lower buffer might be more appropriate if our forecasts would be more accurate.

On a separate note, FRBNY legal has prepared a draft letter for Treasury to send to you regarding their authorization and direction for us as fiscal agent to perform buybacks. The intention is to get feedback from Treasury staff on that draft today such that you have more information on any issues you may need to elevate ahead of the meeting with the Secretary tomorrow. Operational preparations are moving ahead to be ready for a potential announcement on Wednesday, October 8th. Again, we have been told by Treasury that there is less than 50 percent probability of needing to make such an announcement.

Appendix 11

Debt Ceiling Prep (September 23, 2013)

From: RoweStraker, Annmarie
Sent: Monday, September 23, 2013 7:43 PM
To: NY MKT CBIAS SCs [REDACTED]
Subject: Debt Ceiling Prep

Importance: High

As you may have heard or seen on the news, the fiscal wrangling around the debt ceiling has resumed after a brief hiatus.

I'm representing CBIAS on a Bank debt ceiling issues workgroup, chaired by Roseann Stichnoth, that's looking at the issues unique to FRBNY given our clients (DIs, CB, etc).

As you may have heard, unlike the 2011 planning around prioritizing payments and rolling maturities, the Treasury has said they will make all P&I payments this time around. That said, the workgroup has been looking at the worst case scenarios of a default and/or an intraday overdraft to the TGA account from P&I activity that doesn't get cured same day (note standard current process has the P&I flows happening ahead of settlement of new issued securities, etc, so account isn't prefunded and normally goes into overdraft on these Treasury activity days).

We've been asked to revisit our procedures around such events. Fedwire folks have confirmed that in a default situation they can move the securities to another account on Fedwire whereby once payment occurs it will be paid to owner on record at the point the security matured. However these securities would not be transferable.

It wasn't clear to me what would happen in CAPs in this case but I'm hoping during the 2011 prep we (CBIAS) had looked at this. With this backdrop, are you aware of such testing for CAPS and is there any documentation/procedures on this (and/or other scenarios like rolling maturity, etc)?

I've asked [REDACTED] to gather any information we may have on this asap but in the interim we need to think about revisiting and/or testing anew CAPS (with Fedwire, etc) for these scenarios just in case. Projections are for the Treasury to run out of accounting tools in the mid-Oct time frame and cash in the TGA by a few weeks later.

Just as fyi, there are scenario testing with OPICS and TMP planned in the coming weeks. If some of this testing was done in 2011 would be great to dust those docs/test results off for reference.

Appendix 12

Handwritten Debt Ceiling Meeting Notes of New York Fed Employees

Oct 8 - Debt ceiling

- Oct 17 - tools exhausted

- Oct 31 / Nov 1 - Run out of cash est

o if Only pay P&I could go through Dec or further.

Discount Window - may be able to take ^{as} collateral frozen security
Treasury securities (past maturity date)

- manual process

- NY discussion mainly but Boston on the call & procedures will be put together

⇒ Broad escalation deadline -

- Normal P&I - 8:05 - 8:15 Am
maturity date

Scenario - not rolled & payment not made - security frozen

Frozen security - can be used used for DW collateral

- legally can take it but if it isn't already with us may be difficult to get to us.

Debt Ceiling

① 8:00pm - Oct 16th

Tentative date Oct 24

- Treasury will prioritize
- focus on protecting P&I

ITS

Buy Back program for non marketable securities if need to make room for marketable securities.

Markets - Debt

- 1) System - Opus Assumes perfect settlement
- 2) Manual Reversal to Record
A - Current procedure

maturities

2 - Oct 31
2 - Nov 15

Securities Lending -

- (A) Holdings ✓
 - (B) * Sec lending ✓
 - (C) Custody ✓
 - (D) Agency = A ✓
 - (E) Repo w/ cash collateral
- Follow-up meeting to be held w/ Board

Buybacks - not this week 99%
 late next week possible - 17 Announced
 18 auction
 21 settle

Workstream - Pricing - How to price if there
 is no pricing -

Normal / Schedule Fedwire close 9 close open ^{12:00}
 ?
 Securities 10:30 close

day 2
 ?
 Securities 10:30 close

CLS - process 1st file 12:30 - 1:00 AM
 (1:00 first file sent to Fedwire)

CLS - close 4:00 AM

Securities lending -

Dummy sec ID - okay for collateral
will be ..

Scenarios - decision tree - OMO's

Timeline doc's

Debt ceiling

10/17 - extraordinary measures run out

10/31/11/1 - T Run out of cash

current - both Senate & House have similar bills to raise debt ceiling
- Feb 7

MtIs Will keep a \$5 billion buffer for escalation.

° Triparty - Treatment of maturing cusip.

8:00 AM - general time P&I
Pd.

Sometime before - Bony takes security out of books

° Transferability - what happens if T doesn't let us role the securities.

- Discount window is the only place we can take it in.

Debit

██████, ██████, ██████

(credit)

(A) ⇒ Security mat. red if not rolled
 • Still on Fedwire
 • Still Security - (Security entitlement)
 - claim for P&I

lower tier concept.
 ↳ to ensure FRB not agent

↳ if default
 - customer NBESS A/C will have the actual equip.

↳ Legally ⇒ Fiscal Agent to T
 - commercial law
 • Reserve Banks Role
 - clearing corp. (not agent)
 • Securities intermediaries - get to write rules binding.
 - ~~issues can have~~
 - didn't want right to participate to come to us.

[REDACTED]

11:45 - Debt Ceiling - ^{contacted}

Review of - ITS, WFO,

- Don Hammond - procedures CBIA's (letter of credit)

- [REDACTED] - what can be done w/ defaulted
Securities.

Darby

- Debt ceiling
- Re / capital / expense

- A/c policy -

- carve claim to Fredel

Budget - Summit.

FPR -

* - Treasury obligation ends
with payment to Customer
vs. payment to agent,
legal regulation states this fact.

- What is the

Appendix 13

Email Regarding March 2013 Draft Fedwire Securities Contingency Procedures
(September 27, 2013)

From: [REDACTED]
Sent: Friday, September 27, 2013 10:16 AM
To: [REDACTED]
Subject: FW: Draft Fedwire Securities Contingency Procedures
Attachments: WPO Debt Ceiling Securities Capabilities (2013) 0313.pdf

RESTRICTED FR

I didn't see your name on Jim's e-mail.

From: Narron, James
Sent: Friday, September 27, 2013 10:15 AM
To: [REDACTED]
Cc: [REDACTED] [REDACTED] [REDACTED] (Board)
Subject: Draft Fedwire Securities Contingency Procedures

RESTRICTED FR
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Treasury SBU

Patti

Even though Treasury has directed the Reserve Banks that they intend to make P&I payments, we have drafted the very detailed contingency procedures, including NBES broadcast messages, if ultimately asked to delay End-of-Day, roll the dates, delay P&I payments, or not make P&I payments. Both Board staff and my legal team have suggested that we should at least share these more detailed contingency procedures and NBES broadcast messages with Treasury, and perhaps seek approval where appropriate.

How should we coordinate this? These are very detailed contingency procedures across a broad range of scenarios.

Jim

James D. Narron
Senior Vice President
Fedwire Securities Service
[REDACTED]

Appendix 14

Debt Ceiling Update and July 2011 Draft Interagency Statement on Debt Guidance
(September 20, 2013)

From: [REDACTED]
Sent: Friday, September 20, 2013 3:44 PM
To: [REDACTED]; Dobbeck, Dianne; Manzari, Steven J; Hennessy, James; Meadow, Patricia; Calabia, Christopher; NY FISG SSO; NY FISG DSO [REDACTED]; [REDACTED]
Cc: [REDACTED]
Subject: RE: -FRSONLY- Debt Ceiling Update
Attachments: Interagency Debt Limit Statement-Final_July 2011.docx

RESTRICTED FR

It has been about a month since I sent my initial note on this round of the debt ceiling discussions, unfortunately, there has been no resolution or progress toward averting another debt ceiling crisis. Just to be clear, the debt ceiling issue is separate from the debate regarding passing a budget or continuing resolution to avoid a government shut down on October 1. That is a different fiscal issue to monitor. The budget issue does delay Congressional focus on resolving the debt ceiling matter.

Weekly meetings of staff from around the Bank have begun on the debt ceiling topic. The group meets each Monday – Roseanne Stichnoth chaired this week’s discussion.

The latest projections have Treasury exhausting their funds with a buffer of about \$50B on October 16. This is not public – public statements reference mid-October. Given margin of error in projecting the inflows and outflows for Treasury, the date could move +/- a week. Noteworthy, October 17 has principal payments of \$85B.

Treasury continues to be adamant that they will make principal and interest payments on the debt. This is a slightly different position than prior exercises where prioritization of debt payments was not specified. (This stance is subject to change.)

From a supervisory perspective, the Board is engaging other regulators on the guidance to financial institutions that was drafted, but not issued, in 2011. A copy is attached. It clarifies that the risk-weights of Treasury and other Government Securities will not be adversely classified for risk-based capital purposes; provides potential for relief if regulatory capital levels deteriorate due to balance sheet growth; and encourages flexibility in working with customers adversely impacted by delayed government payments. The BOG staff working on this effort are: Kirk Odegard and [REDACTED] as leads for BS&R, [REDACTED] for RBOPS, and [REDACTED] from Public Affairs.

Here is what we are hearing thus far regarding industry preparations for the debt ceiling:

[REDACTED] has shared that JPMC Money Market Funds have indicated that they are positioning themselves to not hold any Treasury Securities scheduled to receive principal or interest payments in the mid-October timeframe. They also indicated that they will be increasing the liquidity of their funds during this period.

Citibank and DTCC have indicated that they are discussing internally their debt ceiling contingency procedures.

It would be helpful if SSO teams during their normal interactions with the firm inquire about any preparations the firm is taking for debt ceiling or if they are seeing any market participants taking actions related to debt ceiling. Please pass along any information to [REDACTED], [REDACTED] and myself.

You may also pass along my contact information (see below) if they have questions.

Unfortunately, we have no additional information that we can share beyond our discussions late last year into early 2013. Those conversations were based on the information in the May and June 2012 Treasury Market Practices Group meeting minutes available publically. <http://www.newyorkfed.org/tmpg/meetings.html> - TMPG public website.

We will continue to share information as it becomes available and appreciate your help in gathering market reactions as we get closer to October.

Thank you!

[REDACTED]
Vice President
Financial Institution Supervisory Group
[REDACTED] - office
[REDACTED] - cell
[REDACTED]@ny.frb.org

From [REDACTED]
Sent: Tuesday, August 27, 2013 4:25 PM
To [REDACTED]; Dahlgren, Sarah [REDACTED]; Dobbeck, Dianne; Manzari, Steven J; Hennessy, James; Meadow, Patricia; Calabia, Christopher; NY FISG SSO; NY FISG DSO
Cc [REDACTED]
Subject: -FRSONLY- FYI on Debt Ceiling

Just an FYI

Given the Treasury's announcement that it will only have sufficient funds to make all payments through "middle of October", the press coverage of debt ceiling has started to pick up in recent days. I have reached out to others within FRBNY that are involved in the Debt Ceiling discussions. Jim Narron of WPO had been the coordinator earlier this year, but Christine Cumming and Roseann Stichnoth may play a bigger role as this issue heats up this fall with [REDACTED] playing a key coordination role for them across the Bank.

I will share additional information as it becomes available, I just wanted to raise awareness that we are following up on this issue. We do not anticipate reaching out to our firms at this time, unless there is a change in the approach to handling the potential delay of P&I payments. I do think some firms may start to raise the topic with us over the coming weeks. I recommend that we handle this as we would other types of contingency event preparations so that we understand the plans and are notified of unusual market behavior. It is possible that we may start to see very soon some market participants refusing to take the Treasury CUSIPS that are scheduled to make payments in mid-October through November. Earlier this year, we were just beginning to hear of such behavior before the debt ceiling was suspended until May.

[REDACTED] and myself will be contacts in FMI as this develops.

Here is a quick summary of principal and interest payments due in October through mid-November. I have highlighted October 15 because this is the Tuesday after the Columbus Day holiday, which could be very problematic if this becomes the exact date when Treasury cannot make all payments. Most financial institutions would need to know on Friday, October 11 before they run their end-of-day process how these payments would be handled on Tuesday. If the debt ceiling is unresolved, it may be difficult for Treasury to provide that clarity when Congress has the weekend to still act.

Outlay Date	Total P&I Payments	Total # of CUSIPS
-------------	--------------------	-------------------

CONFIDENTIAL PRODUCTION FOR HOUSE FINANCIAL SERVICES COMMITTEE

Thursday, October 03, 2013	59,998,529,000.00	1 (P)
Thursday, October 10, 2013	60,006,315,200.00	1 (P)
Tuesday, October 15, 2013	33,779,745,326.72	1 (P&I) 13 (I)
Thursday, October 17, 2013	84,994,279,400.00	1 (P)
Thursday, October 24, 2013	57,999,465,300.00	1 (P)
Thursday, October 31, 2013	121,280,943,189.11	2 (P&I) 1 (P) 21 (I)
Thursday, November 07, 2013	53,997,831,600.00	1 (P)
Thursday, November 14, 2013	48,995,938,900.00	1 (P)
Friday, November 15, 2013	94,437,489,425.52	2 (P&I) 50 (I)

(P) Principal only
 (I) Interest Only
 (P&I) Principal and Interest

We will provide updates as we learn more.

██████████
 Vice President
 Financial Institution Supervisory Group
 ██████████ - office
 ██████████ - cell
 ██████████@ny.frb.org

**Board of Governors of the Federal Reserve System
Federal Deposit Insurance Corporation
National Credit Union Administration
Office of the Comptroller of the Currency**

For Immediate Release

July xx, 2011

Agencies Issue Guidance on Federal Debt

The federal banking agencies are carefully monitoring potential impacts on financial markets and financial institutions of developments related to the federal debt. With regard to these developments, the federal banking agencies are providing the following guidance to banks, savings associations, credit unions, and bank and savings and loan holding companies (collectively, banking organizations).

For risk-based capital purposes, the risk weights for Treasury securities and other securities issued or guaranteed by the U.S. government, government agencies, and government-sponsored entities will not change, and those securities will not be adversely classified or criticized by examiners. The treatment of Treasury securities and other securities issued or guaranteed by the U.S. government, government agencies, and government-sponsored entities under other federal banking agency regulations, including, for example, the Federal Reserve Board's Regulation W, will also be unaffected.

Banking organizations may experience temporary balance sheet growth if, for example, market conditions lead to unusually large deposit inflows or draws on existing lines of credit. Banking organizations that experience significant balance sheet growth may also experience a temporary decline in their regulatory capital ratios as a result of responding to customers' needs. If a banking organization believes such a situation could arise, management is urged to contact its primary federal regulator to discuss how to address such developments in light of the organization's overall financial condition. In assessing supervisory options, the federal banking agencies will consider whether a banking organization maintains a fundamentally sound financial condition and provides evidence that any drop in regulatory capital ratios would be temporary.

Some banking organizations' customers may be adversely affected by developments related to the federal debt. In such cases, the federal banking agencies remind banking organizations that they retain the flexibility to work with customers who may experience temporary financial stress. In so doing, organizations should exercise prudent judgment and sound risk-management practices. Efforts taken to work with borrowers and customers, if conducted in a reasonable and prudent manner, are consistent with safe and sound banking practices. In this regard, the federal banking agencies encourage banking organizations to consider all reasonable and prudent actions that could help meet the critical financing needs of their affected customers.

Banking organizations should maintain a dialogue with their primary federal regulators as they assess risk-management challenges that may arise from the federal debt situation.

###

Media Contacts:

Federal Reserve
FDIC
NCUA
OCC

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Appendix 15

Email Regarding Debt Ceiling Procedures (September 25, 2013)

From: Narron, James
Sent: Wednesday, September 25, 2013 2:05 PM
To: [REDACTED]
Cc: Dzina, Richard [REDACTED]; Armendinger, Gail
Subject: RE: Debt ceiling
Attachments: Fedwire Securities Delayed Payments Walkthrough 090313.pptx; WPO Debt Ceiling Securities Capabilities (2013)_0313.pdf

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Pre-Decisional and Deliberative

[REDACTED]:
There are no special procedures for debt ceiling as Treasury has indicated all P&I payments will be made. With that said, we developed some contingency scenarios in 2011 (and revised in January) that describe our capability depending on what we may be asked to do, which we've walked through with TRSO and Treasury. I've shared versions of the deck with TRSO and Treasury this year, but not our detailed capabilities (procedures) since 2011. Copyin [REDACTED] here.

If you want a walk through, let [REDACTED] know. Gail and I are contemplating an operational walk through, similar to the one I coordinated in August 2011 - just to ensure operational readiness.

Jim

-----Original Message-----

From [REDACTED]
Sent: Wednesday, September 25, 2013 12:56 PM
To: Narron, James [REDACTED]
Cc: Dzina, Richard [REDACTED]
Subject: Debt ceiling

Can I please get the most recent debt ceiling procedures?

I want to make sure we are in lock step. We have not seen procedures since last year. I also want to have the risk team take a review.

Appendix 16

Notes for Briefing for Governor Powell (October 3, 2013)

From: [REDACTED]
Sent: Thursday, October 03, 2013 2:37 PM
To: [REDACTED]
Subject: RE: powell call -FRSONLY-

Thanks.

[REDACTED]
Policy Expectations & Reserve Forecasting
Markets Group
Federal Reserve Bank of New York
[REDACTED]

From: [REDACTED]
Sent: Thursday, October 03, 2013 2:27 PM
To: [REDACTED]
Subject: RE: powell call -FRSONLY-

Yup, looks fine to me.

From: [REDACTED]
Sent: Thursday, October 03, 2013 2:15 PM
To: [REDACTED]
Subject: RE: powell call -FRSONLY-

Finalizing notes now – does this look ok?

Reserve Bank Payments Processing and Preparations: Treasury does not have the authority to prioritize payments, including P&I. In a debt ceiling impasse however, it is anticipated that Treasury will continue to pay P&I while all other payments are made on an all or nothing basis.

- While many payments are processed with Treasury pre-approval, many payments originate from Non-Treasury Disbursing Offices (NTDOs) which do not require such pre-approval.
 - In a debt ceiling impasse, the NTDOs' ability to originate and process payments in an automated fashion would be curtailed, requiring payments to be pre-approved by Treasury and processed manually.
 - In order to ensure that payments could be processed with NTDOs taken offline, Treasury may begin gating payments as early as 1 week prior to the exhaustion of extraordinary measures.

[REDACTED]
Policy Expectations & Reserve Forecasting

Markets Group
Federal Reserve Bank of New York

From [REDACTED]
Sent: Tuesday, October 01, 2013 2:31 PM
To [REDACTED]
Subject: RE: powell call -FRSONLY-

A couple of suggested tweaks:

1. Treasury has no authority to prioritize anything, including P&I. So I would say it's anticipated that everything will be paid on an all-or-nothing basis, except that P&I is likely to be prioritized is possible despite their lack of authority to do so.
2. Rather than referring to payments being "centralized," I'd suggest saying "with Treasury pre-approval." The point of curtailing automated processing is to make sure that Treasury can pre-approve payments, which is not normally required for NTDO processing.
3. Payments might be gated as early as 1 week prior to the exhaustion of tools, which could be up to two weeks before the TGA actually runs out of funds. Not clear if Treasury will actually starting gating this far out, but they've said they might.

Just let me know if you need more info...thanks!

From [REDACTED]
Sent: Tuesday, October 01, 2013 1:30 PM
To [REDACTED]
Subject: powell call -FRSONLY-
Importance: High

Since you are the local authority on NTDOs and RBOPS – can you take a look at the summary below? Pulling together notes from the Powell call and want to make sure I'm characterizing [REDACTED]'s remarks properly.

- 4) Reserve Bank payments processing, preparations ([REDACTED], RBOPS)
 - With the exception of principal and interest payments, Treasury does not have the authority to prioritize payments. As a result, it is anticipated that non-P&I payments will be made on an all or nothing basis.
 - While many payments are processed in a centralized manner, many payments originate from Non-Treasury Disbursing Offices (NTDOs).
 - In a debt ceiling impasse, the NTDOs' ability to originate and process payments in an automated fashion would be curtailed, requiring payments to be centralized and processed manually.
 - In order to ensure that payments could be processed with NTDOs taken offline, Treasury may begin gating payments as early as 1 week earlier that would be necessary.

██████████
Policy Expectations & Reserve Forecasting
Markets Group
Federal Reserve Bank of New York
██████████

Appendix 17

Invitation to Attend SIFMA Government Operations Committee Meeting
(September 17, 2013)

From: [REDACTED]
Sent: Tuesday, September 17, 2013 4:20 PM
To: [REDACTED] [REDACTED] [REDACTED]
Subject: -FRSONLY- SIFMA Govt Operations Committee & TDC

RESTRICTED FR

I received an invite to Gov't Ops Committee of SIFMA – I saw [REDACTED] and [REDACTED] names – [REDACTED] not sure if you were listed. We cannot speak to SIFMA regarding debt ceiling – only individual supervised firms. WPO can attend, but probably can't say much. We only have a role as supervisors.

I learned yesterday the date is Wednesday, October 16 – but given potential error in projections of incoming funds it could swing forward or backward about a week.

Treasury is adamant they will make P&I payments. Not considering possibility of missing debt payments.

[REDACTED]
Vice President
Financial Institution Supervisory Group
[REDACTED] - office
[REDACTED] - cell
[REDACTED]@ny.frb.org

Appendix 18

Open Issues with Debt Ceiling (September 24, 2013)

From: Stichnoth, Roseann
Sent: Tuesday, September 24, 2013 3:00 PM
To: Bergin, James P [REDACTED]
Subject: -FRSONLY- Debt Ceiling Doc
Attachments: DRAFT - Debt_Ceiling_Open_Issues_Summary_Sept 24_RS.docx

Jim and [REDACTED],

This is the latest version, and I expect another turn later today, and further revisions as the event draws closer. As I mentioned, Simon and Lorie will provide oral updates on a number of market issues.

Please feel free to let me know if you have any questions or comments – thanks.

Roseann Stichnoth

Office [REDACTED]

Blackberry [REDACTED]

Debt Ceiling Issues and Status – FRBNY**Draft, 9/24/13****Background (TRSO Presentation to CFVP, 9/30/13, blue text)**

Since May, Treasury has used the extraordinary measures it has available to fund Government operations; these include:

- Suspend issuance of State and Local Government Series Treasury securities (initiated on May 17);
- Redeem/suspend Civil Service Retirement and Disability Fund investments;
- Suspend G-Fund investments for the federal employee Thrift Savings Plan; and
- Suspend Exchange Stabilization Fund investments.

- Treasury currently estimates they will exhaust the extraordinary measures in mid-to-late October. No deal in Congress is imminent, however, proposals for temporary government funding and suspension of the debt ceiling for a short period of time (e.g., 2-3 months) are anticipated.
- Should the extraordinary measures be exhausted, the Treasury Secretary will invoke Treasury's debt ceiling procedures and the Secretary and Fed Chairman would discuss and invoke the Fed's debt ceiling procedures.

Current Framework (UST/TRSO)

Treasury business lines should operate normally during a debt ceiling event Treasury will control the flow of government payments to be processed by the FRS and will send to the FRS only those payments for processing that they have funds to cover.

- FRS special processing procedures in a debt ceiling event will focus on Non Treasury Disbursing Offices (NTDOs). Upon direction from Treasury:
 - Fedwire funds origination for NTDOs will be taken offline and Treasury authorization will be required for processing.
 - The ACH Risk Service will be initiated for NTDOs where ACH files will be pended until authorization is received from Treasury and the NTDO that the files are ok to process.
 - Several other business lines (SVC, ASAP, ITS, Letters of Credit, etc.) that involve direct debits to the TGA have developed procedures to hold/suspend these debits during a debt ceiling event as directed by Treasury.
 - All other FRS-Treasury business lines should operate normally during a debt ceiling event

Preparations to Date (UST/TRSO)

Impacted business functions and payment systems have reviewed and updated their debt ceiling procedures based on Treasury's current direction.

- The RPO and WPO have conducted tests with the NTDO's on the new procedures for handling payments in a debt ceiling event.
- A debt ceiling tabletop exercise was conducted in April. Impacted business functions and payment

systems participated in the exercise, as well as Treasury and BOG staff.

- FRS attorneys, TRSO and BOG staff developed a matrix of key payment system decisions that Treasury must make and convey to the FRS should Treasury invoke their debt ceiling procedures.
- The CRSO, BOG, and TRSO drafted communication materials for Treasury's review. Materials include:
 - General holding statement;
 - Postings for Reserve Banks' internal and external web sites; and
 - Talking points for customer facing staff.
- Treasury is completing its own internal preparations by meeting at least weekly to develop and review their operational procedures. In addition, they have established a new payment information reporting framework with the NTDO's to obtain daily reports on expected payments activity and to provide guidance to the NTDO's on how to control the flow of their payments as needed.

Communication (UST/TRSO)

Debt Ceiling Operations calls with key Treasury and FRS stakeholders are occurring monthly – these will move to bi-weekly as a debt ceiling event becomes more likely.

- Debt Ceiling Financing status calls started in late-September and are occurring weekly. These calls will increase in frequency as the likelihood of a debt ceiling event increases.
- Nightly calls – the '8:00 p.m. call' - will commence when a debt ceiling event is imminent. During these calls, Treasury senior officials will inform the FRS of their decisions for processing the following day's payments. Participants will include senior officials from Treasury, the TRSO, WPO, RPO, CRSO and affected business areas.
- Timing of internal/external communications is TBD based on direction from Treasury and timing of the actual event.

FRBNY Perspectives

FRBNY current projection for exhaustion of extraordinary measures is October 16, with the expectation that the TGA will be depleted on October 24 (■■■■, ■■)

1. TGA Account – FRBNY is the Administrative Reserve Bank

Daily Payment Instructions

UST will provide payment instructions each evening at around 8:00. In addition to the decision-makers noted under the communication section above, FRBNY and BOG will need senior-most decision-makers on call in the event of payment instructions, or other unforeseen issues, could cause undue risk to the FRS and/or the FRBNY.

TGA Overdraft Scenarios:

Key Principles:

- FRBs are not authorized to extend credit to UST. UST overnight overdrafts risk characterization as a credit extension, which could have adverse implications. It may be possible to make a plausible legal argument that an end-of-day *incidental* overdraft should not be characterized as a loan to UST since it is not an affirmative decision to extend credit; however, Board staff and others may have a different view.
- The FRS will take all best efforts to avoid EOD overdrafts, recognizing that this risk cannot be brought to zero, given the possibility of unexpected payment failures, and the inherent uncertainty of monetary projections. However, the accuracy of FRS and UST monetary forecasts has been quite good, with spreads of around \$50M versus actual net funding under *unstressed* circumstances.
- Any concern that UST instructions could lead to an EOD OD situation will be escalated both within the FRS and the UST to achieve collective comfort that an OD will not occur. Such comfort may derive from revised payment instructions, or a better understanding of the projections with high confidence that projected payment activity will not result in an OD.
- NOTE: The TGA settles at the EOD only, so we do not view the concept of intra-day credit as relevant. However, given the known timing of payments, external observers could infer that intra-day credit is being extended.

Immediate Action Items:

- Once this document is approved by the work group, share with FRBNY principals (Cumming, Potter, Baxter, Strine, Krieger, and Stichnoth) and obtain concurrence.
- Communicate/discuss with the BOG (Baxter, Potter (?)) and obtain concurrence.
- Designate FRBNY decision-making team to assemble during an actual debt ceiling event (Senior officer(s) from Markets, WPO, FSG, Accounting, Legal, and Risk). Confirm communication process with UST, BOG, and TRSO.

Daily Action Items in a Debt Ceiling Scenario:

- Monetary Projections staff will continue to prepare daily forecasts to project next day funding flows. Their assessment will be provided to FRS decision-makers, and other stakeholders as needed (BOG, UST – need to confirm protocols here ([REDACTED])).
- Expect to honor payment instructions if consensus view is that an OD will not occur.
- Any FRS concerns that an OD may occur should immediately be escalated to BOG and UST.
- Expect that BOG (Chariman/Governor level), in consultation with FRBNY will have ultimate decision rights, after reviewing projections and developing their view of the OD risk.
- Decisions could include honor all UST payment instructions, or request partial payments to avoid possible ODs.
- If an inadvertent EOD OD occurs, this will be immediately escalated to the FRBNY and BOG decision-making team. Expect proactive steps to assure that OD will not recur the following day. There is considerably less risk tolerance for permitting an end-of-day UST overdraft for more than a single day, because it has more of an appearance of affirmative decision to extend credit to UST.

2. Fedwire Securities Procedures (Narron):

- The securities procedures are being reviewed and updated to address the unlikely event that P&I payments are to be delayed (notwithstanding UST's stated P&I payment priority), and ensure they are finalized with BOG and UST. This will include the deadlines for instructions from the UST in the event that non-payment of P&I is under consideration. The expectation is that if P&I cannot be honored, the maturities will be rolled, and WPO is confirming the required deadlines for such authorization from UST. In the absence of such instructions, the issues are matured and unpaid.

3. Discount Window Collateral:

- [REDACTED] (1/23/13 email to Stephanie Heller):
"The Reserve Banks will accept Treasury securities (including matured, unredeemed Treasury securities and Treasury securities that have not matured, but on which Treasury has missed one or more coupon payments) for discount window and PSR purposes. On day one of a debt ceiling event, Treasury securities will be valued based on regular valuation procedures. Reserve Banks, however, will assess the valuation procedures on an ongoing basis and will post notices of any changes in these procedures.
- Confirming with SCRM members (each representing their respective RB) that the above approach will be implemented if necessary (Krieger).
- Procedures from 2011 are currently being updated.

4. Market Functioning

Update to be provided by Logan/Potter

5. FISG – Planning by supervised institutions

- No extraordinary outreach. On-site teams will discuss in the normal course – such discussions likely just ramping up now. This reflects in part the expressed wishes of both UST and the BOG. Through TMPG and their published minutes, we think the large market participants understand the operational impacts, and should be planning accordingly.

[REDACTED])

6. Communication:

- Will construct a communications plan for during a debt ceiling event, including for internal Fed and UST communications and also for communications with stakeholders unique to the FRBNY (Gutt). More follow-up during upcoming weekly meetings, given UST sensitivities here.

Appendix 19

Discussions on Preparing President Dudley for a Meeting on the Debt Ceiling
(September 25, 2013)

From: [REDACTED]
Sent: Wednesday, September 25, 2013 9:30 AM
To: [REDACTED]
Subject: RE: Debt Ceiling Meeting -FRSONLY-

RESTRICTED FR

Thanks. Very helpful. FYI- the debt ceiling is on the TMPG agenda for this evening's meeting. We are not using those words, of course.

From: [REDACTED]
Sent: Wednesday, September 25, 2013 8:50 AM
To: [REDACTED]
Subject: Re: Debt Ceiling Meeting -FRSONLY-

RESTRICTED FR

Wanted to keep you guys in the loop on the materials that have been prepared for a Dudley meeting this morning on debt ceiling issues. These attachments include some discussion of OMO and DW impacts of trading/accepting Treasury securities that have delayed/unpaid P&I (which Treasury has assured us will never happen, but NY is thinking through the unlikely event anyway, especially since no one else in the System or at Treasury wants to talk about the topic at all). I can give you some more color if you like. Thanks.

[REDACTED]
Counsel & Vice President
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045
T: [REDACTED]
F: [REDACTED]

Appendix 20

Documentation for the Oct. 7 Debt Ceiling Call (October 7, 2013)

From: [REDACTED]
Sent: Monday, October 07, 2013 10:15 AM
To: Cumming, Christine; Dzina, Richard
Cc: [REDACTED] [REDACTED] [REDACTED]
Subject: -FRONLY- Documentation for the 1:00 pm Debt Ceiling call
Attachments: Debt limit discussion Oct 7 agenda.docx; DL 2Exhibit D Reserve Bank operations.docx; DL 3Exhibit E Supervision.docx; DL 4Exhibit G Discount Window Priorities.docx

Additional documentation is forthcoming.

Best,

[REDACTED]
Office of the President
Federal Reserve Bank of New York
Phone [REDACTED]
Fax [REDACTED]

Debt limit briefing

October 7, 2013

1:00 - 2:30 p.m. ET

B-4001

Conference bridge Phone No. and Code, Access code Phone No. and Code

Agenda

Topic	Lead discussant(s)	Exhibit
1. Opening remarks	Louise Roseman	
2. Current projections	Beth Klee	A
3. Market developments	Fabio Natalucci	B
4. Liquidity pressures/money market funds	Patrick McCabe	C
5. Planning and communications:		
a. Reserve Bank operations	Susan Foley	D
b. Need for/size of TGA buffer	Simon Potter	
c. Supervision	Mark Van Der Weide/Tim Clark	E
d. OMO/Treasury Market Practices Group	Lorie Logan	F
e. Discount window/SCRM	Sandy Krieger	G

Debt limit briefing – Reserve Bank operations**October 7, 2013***Planning*

- Treasury expects to queue and release payments for processing only if sufficient balances are available to cover all payments due on that day. In the past, however, Treasury had decided to prioritize P&I payments in the event of a debt ceiling impasse and that may be the outcome at the end of the day.
 - If Treasury does prioritize P&I payments, it may need to hold back making a day's payments, even if it had sufficient balances to do so, in order to accumulate sufficient balances to pay a future-day's large interest payment. Principal payments on Treasury securities would be funded, to the extent possible, by auctions that roll over maturing securities.
 - If P&I payments aren't prioritized and Treasury has insufficient balances to redeem maturing securities, the maturity date of these securities will be rolled forward by one-day increments on the Fedwire Securities system, so that they can continue to be transferred. When Treasury can pay, it will pay the principal to the holder of record at the COB on the day before payment is made, and will pay interest to the holder of record at the COB on the day before the scheduled interest date.
- Each evening during an event, Treasury will relay its decision to release (or not) payments based on projections for the next day.
 - Treasury must have sufficient funds on deposit with the Federal Reserve in the Treasury General Account to keep the balance above zero at the close of business.¹
 - Authorized ACH payment files will be delivered to the receiving depository institutions early in the morning on the settlement date, rather than the usual practice of several days in advance.
- The Reserve Banks process government receipts and payments as fiscal agent.
 - The Reserve Banks have been working actively with Treasury to develop debt limit procedures for Fedwire Securities, Fedwire Funds, ACH, and check, and for other lines of business where the Reserve Banks serve as fiscal agent.² Treasury has reviewed and provided comments on most procedures at this point.

Communications

- Although Treasury will be the focal point for communications about the debt limit, the Reserve Banks have prepared some brief communications that emphasize that the Reserve Bank payment services are operating normally and are processing payments, including those authorized by Treasury.
- Treasury has been very reluctant to provide any information to the private sector regarding its plans. Board staff has strongly encouraged Treasury to reveal its plans in advance to allow the private sector to prepare sufficiently.³

Unknowns

- Congress may instruct the Treasury to prioritize certain payments. Prioritization would present some operational challenges for Treasury and Reserve Banks.

¹ The Federal Reserve Act (12 USC 355) does not permit the Federal Reserve to lend to the Treasury.

² These procedures include plans to control payments from non-Treasury disbursing offices.

³ Also, it would ensure that the Reserve Banks' competitors are not disadvantaged because they do not have the same insight as the Reserve Banks into the Treasury's plans.

Briefing Note - Debt Ceiling
October 7, 2013

Planning and Communications - Supervision

Contact: Mark Van Der Weide [REDACTED]

In the summer of 2011, BS&R staff evaluated potential supervisory issues for institutions related to the then-looming debt ceiling constraint and developed draft guidance in the form of a press release (that ultimately did not need to be issued). We have recently reviewed the guidance and considered whether any changes would be necessary in light of rules and regulations implemented subsequent to the summer of 2011. We have determined that the message is still appropriate, and we are ready to move forward with issuance if and when needed. The key issues we plan to address in any communication to institutions relate to:

- The supervisory and regulatory treatment of Treasury securities and other securities issued or guaranteed by the U.S. government, government agencies, and government-sponsored entities for which a payment has been missed:
 - The risk weights of these assets for risk-based capital purposes will not change.
 - The assets will not be adversely classified or criticized by examiners.
 - The treatment under Regulation W for these assets will be unaffected.
- Potential institution balance sheet growth from unusually large deposit inflows or draws on existing lines of credit may result in a temporary decline in capital ratios as institutions respond to their customers' needs:
 - Institutions that experience such a decline in capital ratios would be encouraged to contact their primary supervisory agency.
 - Supervisors, in assessing supervisory options, would consider whether an institution maintains a fundamentally sound financial condition and provides evidence that any drop in regulatory capital ratios would be temporary.
- Working with affected customers:
 - Institutions would be reminded that they have the flexibility to work with customers experiencing temporary financial stress, using prudent judgment and sound risk management practices.

The other banking agencies agreed to join us in the issuance in 2011, and we are working through Board Public Affairs to determine the other agencies' current plans. We also have questions and answers prepared to assist with communications to the press, examiners, and bankers.

During the past year, System staff conducted limited outreach to larger supervised firms to gain an understanding of their preparedness should a disruption in Treasury payments occur. Institutions have identified a number of operational issues and are developing contingency and communication plans. In addition, industry groups are discussing potential scenarios associated with a potential delay in principal or interest payments on government securities and considering contingencies.

Discount Window Priorities in Debt Ceiling Event

- I. *The most important message regarding DW practices at the inception of a debt ceiling event is the RBs' continued acceptance of all government guaranteed securities as eligible collateral. Public communication prior to an actual event has been strictly prohibited. Thus, in an event, priority one is:*
- a. **Ensure that Reserve Banks communicate appropriately publicly about discount window collateral eligibility and valuation.**
- i. BoG SCRМ liaisons and the SCRМ Chair will consult (and coordinate w other BoG messages); when in agreement, the SCRМ Chair will give direction to the SCRМ member at FRB Chicago to post a message on the public "Discount Window" website, maintained by FRB Chicago. We also would communicate the message to the SCRМ community (all RBs) and RB Communication areas. SCRМ liaisons would communicate to TRSO and CRSO.
 - ii. We anticipate that the communication to the public will be that: all UST securities and securities issued or guaranteed by the US government, government agencies and government sponsored enterprises will remain eligible on usual terms as collateral at the discount window and for payment system risk purposes.
 - iii. This message could also be posted on the Board of Governors website.
 - iv. Each Reserve Bank may want to post this message on its public website, and post a link to the public Discount Window website of FRB Chicago.
- II. *We also may need to adopt some special valuation procedures, should our vendor's ability to price securities be impacted. Thus, at the same time, we must:*
- a. **Ensure that Reserve Banks have access to appropriate valuations of eligible collateral.**
- i. "Business as usual to the extent possible" with respect to collateral valuation processes; FRB Phila and FRB NY are directly involved in pricing and valuation operations.
 - ii. If market prices are not available from vendors or if there is reason to question the data, there is a contingency process in place to assign prices and lendable values.
 - iii. Pricing will be evaluated for reasonable consistency across vendors used for Discount Window collateral and vendors used for SOMA securities. (FRB NY)
 - iv. A recommendation to deviate from typical pricing processes will necessitate consultation with the SCRМ Chair (FRB NY), the Chair of the SCRМ Collateral Steering Group (FRB Bos), and the SCRМ liaisons in Monetary Affairs and RBOPs, and will require endorsement by SCRМ members.
 - v. Endorsements by SCRМ to deviate from typical pricing processes will be communicated to the head of CCRM (President Dudley).
 1. TRSO also will be informed of any changes to typical pricing approaches; pricing also applies to securities pledged to UST.
 - vi. Deviations from normal processes to assign prices likely will require manual intervention; procedures exist for this.
 - vii. It will be important to have the prices for UST and agency security in place when all other vendor-priced collateral values are assigned for the business day (typically, 8 am for that business day).

Appendix 21

Communication Procedures for the Debt Limit (October 7, 2013)

From: [REDACTED]
Sent: Wednesday, September 25, 2013 5:59 PM
To: [REDACTED]
Cc: [REDACTED]; Fogarty, Timothy [REDACTED]
Subject: Re: Debt limit procedures -FRSONLY-

Thanks [REDACTED], we sent along the procedures. On your communication procedure point, if you recall earlier in this process we had resurrected the communication procedures and was advised against making any updates/changes given the Treasury's position on any communication, is this something we should be looking to revise/dust-off or wait to see what comes out of Roseann's efforts to re-engage senior folks on this topic?

From [REDACTED]
Sent: Tuesday, September 24, 2013 11:59 AM
To [REDACTED]
Cc [REDACTED]; Fogarty, Timothy [REDACTED]
Subject: RE: Debt limit procedures -FRSONLY-

We should definitely make sure that Roseann has the latest draft of the Letter of Credit procedures. Not sure what you mean by domestic procedures, but please keep me in the loop...I know in 2011 we had some communications / talking points for CBIAS customers and/or primary dealers about the fact that P&I might be delayed, but as far as I know those have not been dusted off in 2013 given Treasury's reluctance to discuss delayed P&I at all. Are there other procedures we might need to worry about?

[REDACTED]
Counsel & Vice President
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045
T: [REDACTED]
F: [REDACTED]

From [REDACTED]
Sent: Tuesday, September 24, 2013 11:31 AM
To [REDACTED]
Cc [REDACTED]; Fogarty, Timothy
Subject: FW: Debt limit procedures -FRSONLY-

So not sure if we should include the Letters of Credit ones but I'm incline to do so. Also, do we have completed procedures on the domestic side? [REDACTED], believe [REDACTED] was making additional tweaks to procedures following another test in the next few days? Are you okay sending what you have?

Thanks

From [REDACTED]
Sent: Tuesday, September 24, 2013 11:11 AM
To [REDACTED]
Subject: Debt limit procedures -FRSONLY-

Hi all – would you mind sending me your most up to date debt limit procedures? Any stage of development is fine – draft or final – but please indicate that to me. The sooner the better is preferable – Roseann is briefing Bill tomorrow and is pulling together procedures from across the bank.

Thanks!

■

■

Policy Expectations & Reserve Forecasting
Markets Group
Federal Reserve Bank of New York

■

Appendix 22

Discussions on Redrafted TRSO Procedures (September 24, 2013)

From: Stichnoth, Roseann
Sent: Tuesday, September 24, 2013 6:31 PM
To: [REDACTED]
Cc: [REDACTED]; Heller, Stephanie [REDACTED]; Narron, James
Subject: Re: Documentation - CFVP Meeting (9/30/13) -FRSONLY-

Thank [REDACTED], agree the close hold here is crazy, counter-productive, and adds risk to an already risky situation. I will bring this up at the meeting at 11.

From [REDACTED]
Sent: Tuesday, September 24, 2013 06:28 PM
To: Stichnoth, Roseann
Cc [REDACTED]; Heller, Stephanie [REDACTED]; Narron, James
Subject: FW: Documentation - CFVP Meeting (9/30/13) -FRSONLY-

RESTRICTED FR

Roseann:

Please see the TRSO's email below. Turns out that the mysterious "matrix" that TRSO refers to in their 09/30 CFVP briefing slides turns out to be the chart of procedures that I drafted and circulated to the TSLAG lawyers back in March. TRSO has apparently taken it over, made many changes, and shared with Treasury, all without keeping the original author in the loop (I've attached a redline showing changes since the last time I saw it six months ago). Note that, among other things, they've deleted my description of the Fedwire Securities procedures and indicated "Fedwire securities processing will continue as usual," which implies to the reader that no procedures have been prepared at all. It's also totally unclear when and whether TRSO intends to share this thing with the affected business areas, especially given their request that I refrain from sharing this document (a request that I'm obviously ignoring, because I think it's outrageous that they are keeping such a close hold on this type of information at such a late date). Anyway, happy to discuss further if you like. See you tomorrow morning.

Thanks,

[REDACTED]

[REDACTED]
Counsel & Vice President
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045
T: [REDACTED]
F: [REDACTED]

From [REDACTED]
Sent: Tuesday, September 24, 2013 2:26 PM
To [REDACTED]
Cc [REDACTED] (Board) [REDACTED] (Board) [REDACTED] (Board) [REDACTED]; Hendin, Roy
Subject: RE: Documentation - CFVP Meeting (9/30/13) -FRSONLY-

RESTRICTED FR

Attachment in PREDECISIONAL AND DELIBERATIVE – FOR INTERNAL TREASURY AND FRS USE ONLY

█████,

This is referring to the 'Reserve Bank Payment Channels and Business Lines With Treasury-Approved Debt Ceiling Procedures' matrix that that was created in the spring. ██████ (and I believe ██████) shared it with Sheryl Morrow in the spring. The TRSO made some updates based on comments from that discussion and sent it to Sheryl in May along with the business area procedures. Since May, some changes (such as SVC operating normally ██████ as POC for ITS and clarifying that direction and authorization will come from Dick Gregg, etc.) have been made to reflect Treasury's approach for a 2013 event – I would consider this a draft as Treasury is still reviewing internally and it should not be shared.

Hope this eliminates any confusion. Let me know if you have any questions.

Thanks,

From ██████
Sent: Monday, September 23, 2013 3:47 PM
To ██████ ██████ ██████
Cc ██████ (Board) ██████ (Board) ██████ (Board)
Subject: FW: Documentation - CFVP Meeting (9/30/13) -FRSONLY-

RESTRICTED FR

H ██████ ██████ an ██████:

Quick question for you: In the attached slide deck for the upcoming CFVP meeting, there's a bullet on Slide 9 that says "FRS attorneys, TRSO and BOG staff developed a matrix of key payment system decisions that Treasury must make and convey to the FRS should Treasury invoke their debt ceiling procedures." We NY folk are not sure that we know what matrix this refers to...any ideas? Just want to make sure that we have the right info. so that we can brief our FVP on the details if necessary. Thanks!

█████
Counsel & Vice President
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045
T: ██████
F: ██████

From ██████
Sent: Monday, September 23, 2013 4:02 PM
To: Heller, Stephanie ██████ ██████
Subject: FW: Documentation - CFVP Meeting (9/30/13) -FRSONLY-

RESTRICTED FR

As requested.

■

Assistant Vice President
Senior Administrative Officer - Financial Services Group
Federal Reserve Bank of New York
33 Liberty Street | New York, NY 10045 | Email [REDACTED]@ny.frb.org
Office [REDACTED] | Fax [REDACTED] | Mobile [REDACTED]

From [REDACTED]
Sent: Friday, September 20, 2013 7:49 PM
To: Dzina, Richard; Stichnoth, Roseann
Cc [REDACTED]; Narron, James; Held, Michael
Subject: Documentation - CFVP Meeting (9/30/13) -FRSONLY-

Consent topic #01 – TRSO Update

Final Agenda will be sent out on Monday, September 23

[REDACTED]
Business Support Analyst
Corporate Secretary's Office
FRB New York
[REDACTED]

Appendix 23

Emails Discussing the Committee's Interest in a Briefing on the Government's Payment Systems (October 7, 2013)

From: Narron, James
Sent: Monday, October 07, 2013 5:55 PM
To: [REDACTED]; Gutt, Jack [REDACTED]
Cc: [REDACTED]; Dzina, Richard; Heller, Stephanie
Subject: RE: Fedwire

Sounds fine. Give me a ring tomorrow.

From: Nelson, Michael
Sent: Monday, October 07, 2013 5:26 PM
To: Gutt, Jack; Narron, James [REDACTED]
Cc: [REDACTED]; Dzina, Richard; Heller, Stephanie
Subject: Re: Fedwire

I concur and would like to be the point person for this Hill staffer unless one of you objects. I am out today but back tomorrow. Jim or [REDACTED] -- I will give you a call.

From: Gutt, Jack
Sent: Monday, October 07, 2013 05:08 PM
To: Narron, James [REDACTED]
Cc: [REDACTED]; Dzina, Richard; Heller, Stephanie; Nelson, Michael
Subject: RE: Fedwire

That makes sense, though I'd want Michael Nelson's perspective as well re/the house.

From: Narron, James
Sent: Monday, October 07, 2013 5:04 PM
To: [REDACTED]; Gutt, Jack
Cc: [REDACTED]; Dzina, Richard; Heller, Stephanie
Subject: RE: Fedwire

Thanks [REDACTED]. Looping in Jack Gutt here.

Jack,

I don't think we can talk beyond anything that is publicly available, like this cut-sheet from the frbservices.org web-site.

http://www.frbservices.org/files/serviceofferings/pdf/ps_fedwire_securities_final.pdf

I'll forward the other e-mail.

Jim

James D. Narron
Senior Vice President
Fedwire Securities Service
[REDACTED]

From [REDACTED]
Sent: Monday, October 07, 2013 4:09 PM
To: Narron, James
Cc [REDACTED]; Dzina, Richard; Heller, Stephanie
Subject: FW: Fedwire

Jim,

See questions below about Fedwire Securities. Separately, JW Verret sent me an email asking to talk about how Fedwire works. I will forward that to you. I am not sure if we are at liberty or not to speak generically with a Congressional staffer about how Fedwire Securities works, given that his questions are in the context of what we will do if the debt ceiling is reached.

From [REDACTED]
Sent: Monday, October 07, 2013 3:10 PM
To [REDACTED]
Subject: Fw: Fedwire

[REDACTED],

Just a head's up that I suggested that our Govt affairs staff provide your name as the point of contact for his Fedwire questions.

[REDACTED]

[REDACTED]

From: Carr, Selena
Sent: Monday, October 07, 2013 03:07 PM
To: Verret, J.W. <[REDACTED]@mail.house.gov>
Cc [REDACTED] [REDACTED] [REDACTED]
Subject: RE: Fedwire

Thanks J.W., [REDACTED], senior official in the Wholesale Product Department at the NY Fed and who is responsible for Fedwire may be the best person to assist with your questions. His email is [REDACTED]. Please let me know if there is any other information I can provide.

Thanks again,
Selena

From: Verret, J.W. [mailto:[REDACTED]@mail.house.gov]
Sent: Monday, October 07, 2013 2:46 PM
To: Carr, Selena
Cc [REDACTED] [REDACTED] [REDACTED]
Subject: RE: Fedwire

I am happy to avoid sensitive topics, I would merely like background on how the Fedwire system operates.

From: Carr, Selena [mailto:[REDACTED]@rich.frb.org]
Sent: Monday, October 07, 2013 2:45 PM
To: Verret, J.W.
Cc [REDACTED] [REDACTED] [REDACTED]
Subject: RE: Fedwire

Hi J.W., thanks very much for the information. Based on the context of your question, the Federal Reserve, as a fiscal agent, is not authorized to speak on behalf of what Treasury may or may not do. Treasury officials may be better suited to provide more insight into your question. Please let us know if there is any other information we can help you with. Thanks again.

Best,
Selena

From: Verret, J.W. [mailto: [REDACTED]@mail.house.gov]
Sent: Monday, October 07, 2013 2:16 PM
To: Carr, Selena
Cc: [REDACTED]
Subject: RE: Fedwire

Thanks. How about 3? Goldman Sachs released this investor advisory memo today which argued that since Treasury pays bond interest and principal over Fedwire, separately from other obligations, it will have an easier time segregating interest and principal payments and will thus be able to prioritize those payments in the event the debt ceiling isn't raised. Would be interested to get your take.

There are two sources of uncertainty about the Treasury's ability to prioritize spending:

Legal authority: *Some have argued that the Treasury's authority to prioritize payments is unclear. This is obviously a complex legal question that we cannot answer. We can, however, point to past precedents. Ahead of the 1985 debt limit increase, the **GAO advised the Senate Finance Committee that the Treasury had the authority to choose the order in which to pay obligations.** Whether this opinion still holds today is uncertain, since the legal justification at the time was not specified and the effect of legislation enacted since then is unclear.*

Prioritization did occur previously, following expiration of a temporary increase in the debt limit on July 1, 1957. As the federal government began to run a budget deficit that year, the Treasury was forced to delay payments to federal contractors in order to avoid breaching the limit.⁴ More recently, as the debt limit approached in early 1996, the Treasury indicated that failure to raise the debt limit would result in failure to make Social Security payments. The result was that Congress provided authority specifically to issue debt to fund Social Security payments, as an interim step prior to passage of the debt limit hike.

Technical considerations. *The Treasury's position on prioritization is that its **systems are designed to pay all obligations as they are due, and do not allow the Treasury to set a priority of payments to pay some obligations and not others.** Considering that the Treasury makes around 4 million payments per day, this is not hard to believe. Even if full prioritization across all payments were possible, it seems unlikely to work smoothly in practice.*

While these challenges might prevent prioritization of each Treasury payment - i.e., it might be impossible to pay entitlement benefits before defense contractors - **we would expect that if it became necessary, the Treasury would still find a way to separate principal and interest payments from the rest.** It is worth noting that those principal and interest payments, unlike other Treasury payments, are made through the Fedwire system, which could allow easier segregation from other outlays.

Other Creative Ideas Might Be Considered

In the event that the Treasury deems prioritization of interest payments impossible or illegal, a few other options might be considered.

From: Carr, Selena [mailto: [REDACTED]@rich.frb.org]

Sent: Monday, October 07, 2013 2:06 PM

To: Verret, J.W.

Cc: [REDACTED] [REDACTED] [REDACTED]

Subject: RE: Fedwire

Hi J.W., I would be happy to speak with you this afternoon. I've included [REDACTED] and [REDACTED] from the Treasury and Payment Services department who would be available to speak today as well. Please let me know if there is any time before 4:30 today that works best for you. Also, to be of better assistance, is there any issue in particular you would like to discuss?

Thanks very much,
Selena

From: Verret, J.W. [mailto: [REDACTED]@mail.house.gov]

Sent: Monday, October 07, 2013 1:38 PM

To: Carr, Selena

Subject: Fedwire

Selena,

Would like to learn more about the Fedwire system, and it looks like Chris is out of the office. Would you have a quick minute to chat this afternoon?

J.W.

J.W. Verret

Chief Economist

U.S. House Committee on Financial Services

2129 Rayburn House Office Building | Washington, DC 20515

Phone: 202.225.7502

Appendix 24

Letter from Alastair Fitzpayne, Assistant Secretary for Legislative Affairs, U.S. Department of the Treasury to Jeb Hensarling, Chairman, Committee on Financial Services (May 7, 2014)



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

May 7, 2014

The Honorable Jeb Hensarling
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Hensarling:

I write in response to your April 25 letter regarding, among other things, the operational ability to continue making payments on government debt in the event that Congress were to fail to raise the debt limit.¹ Over the past several months, Treasury has addressed each of the questions posed by the Committee, produced an initial set of documents responsive to the Committee's requests, and committed to a process for identifying additional documents. We are now in a position to make additional responsive documents available to the Committee, including sensitive materials related to the operation of the Fedwire Securities System.

As you know, in February of this year, Congress acted to protect the full faith and credit of the United States by extending the nation's debt limit until next spring. Treasury welcomed this bipartisan action. During this period of economic recovery, we are concerned that continued speculation about a potential failure by Congress to raise the debt limit could damage economic confidence and distract from efforts to bolster growth. Such a contingency is entirely within Congress's control to prevent, and any failure by Congress to extend the debt limit when necessary would represent an irresponsible retreat from a core American value: we are a nation that honors all of its commitments.

In previous letters to the Treasury and to the Federal Reserve Bank of New York in its statutory role as Treasury's fiscal agent, you asked several questions related to the Fedwire Securities System. The New York Fed responded to these questions in writing and explained that the only Treasury payments made over the Fedwire Securities System are principal and interest payments on Treasury securities and that it could operate the Fedwire Securities System so as to refrain from making a scheduled principal and/or interest payment on a given security, if given timely

¹ Your April 25 letter also requested documents regarding the Department of Justice's decision to secure a deferred prosecution agreement from HSBC Holdings Plc and HSBC Bank USA N.A. Treasury responded to this request in a letter dated May 6.

instructions to do so. If the debt limit were not raised, and assuming Treasury had sufficient cash on hand, the New York Fed's systems would be technologically capable of continuing to make principal and interest payments while Treasury was not making other kinds of payments, although this approach would be entirely experimental and create unacceptable risk to both domestic and global financial markets. As we have repeatedly stated, this would mean that the United States would default on its other obligations, including to senior citizens, veterans, and members of the military.

We stress that no decision regarding what to do in such a situation was made during the recent debt limit impasses, and potential responses have not been tested. Nor do we know the full extent of the damage if, after 224 years of paying all our bills, we were to stop doing so. For example, each week on average, over \$100 billion of Treasury debt matures. Typically, the holders of these securities and other investors purchase new securities, thus enabling the United States to pay the principal on the maturing debt. If, during a debt limit crisis, investors became less willing to "roll over" their investments in this manner, the United States could be forced to immediately default on its outstanding debt.

Moreover, the United States should never be placed in the position of having to decide whether to make payments on our debt to investors here and around the world or to send Social Security checks to seniors or to pay benefits to veterans. The federal government makes 80 million payments each month, all of which were previously authorized by Congress. The government's systems were designed to pay all of its bills in full and on time. The idea of "prioritization" has been viewed as unfair, unwise, and unacceptably risky to the American people by every President and Treasury Secretary, regardless of party, who has considered it.

In addition, your letters requested various records. First, you requested certain documents regarding Secretary Lew's testimony before the Senate Finance Committee on October 10. On April 8, Treasury provided you with, among other things, the communications with the New York Fed that, to its knowledge, are responsive to this request, noting that it had not identified any consultation between Treasury and the New York Fed regarding the preparation of the Secretary's testimony.

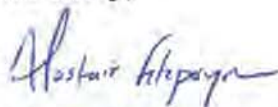
Second, you requested documents relating to planning with regard to principal and interest payments if the nation's borrowing limit were not raised. As we have previously discussed, Treasury has considered a range of options for how we might operate if the United States exhausted its borrowing authority. Furthermore, as the New York Fed explained in its letter to you, it has considered what steps it might take if a principal or interest payment were not paid on time, and in particular, what it could do to ensure the transferability of a defaulted security. We have identified documents that we believe may be helpful to the Committee. Given that these documents potentially include market-sensitive materials and operationally sensitive materials concerning the Fedwire Securities System itself, we will make them available to the Committee for in camera review.

Finally, you requested the names and titles of any Treasury staff who briefed the Federal Open Market Committee on contingencies in the event the debt limit were not raised and plans regarding the processing of federal payments, as well as records associated with such briefings. We are not aware of Treasury staff having provided briefings to, or attended meetings of, the FOMC on these matters.

While we are committed to continuing to engage with the Committee in its performance of its oversight role, we stress that, as a result of bipartisan action, the debt limit is currently suspended until the spring of next year. Rather than continuing to raise the specter of debt limit brinksmanship, we hope that Congress will focus on measures that can bolster economic growth and create jobs. We are eager to continue partnering with Congress in these efforts on behalf of the American people.

Please contact Kathleen Mellody, Office of Legislative Affairs, at (202) 622-1900 to set up a convenient time to review additional documents responsive to your requests.

Sincerely,



Alastair M. Fitzpayne
Assistant Secretary for Legislative Affairs

Identical letter sent to:

The Honorable Patrick McHenry

cc: The Honorable Maxine Waters
The Honorable Al Green

Appendix 25

Letter from Jeb Hensarling, Chairman, Committee on Financial Services and Patrick McHenry, Chairman, Subcommittee on Oversight and Investigations to Jack Lew, Secretary, U.S. Department of the Treasury (April 25, 2014)

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

April 25, 2014

The Honorable Jacob Lew
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20500

Dear Secretary Lew:

This letter responds to the Department of the Treasury's ("Department's") letter dated April 8, 2014 concerning the Committee on Financial Services' ("Committee's") March 25, 2014 letter regarding outstanding requests for information and records.

The March 25 letter requested that the Department produce, by April 8, all materials requested by the Committee pursuant to letters dated June 7, 2013 and December 6, 2013.¹ In its April 8 response, the Department stated that it would make "several hundred pages" of records responsive to the June 7 letter available for *in camera* review, subject to redactions to "protect" prosecutorial deliberations and certain information related to pending civil enforcement matters. In its response, the Department also produced certain records that, it represented, were responsive to the December 6 letter as well as a November 6, 2013 letter from the Committee to the Federal Reserve Bank of New York;² the Department additionally stated that it had begun searching for certain other records responsive to the November 6 and December 6 letters. Lastly, the Department represented that it and/or the Federal Reserve Bank of New York had provided responsive written answers to three questions posed in each of the Committee's November 6 and December 6 letters.

¹ As you know, the Committee has been investigating the extent to which the government has settled or otherwise declined to prosecute criminal matters involving large financial institutions due to concerns that any prosecution could impair the financial system's ability to provide essential functions and services. The Committee has also been investigating the United States' ability to continue making payments on government debt in the event the statutory debt limit is not raised when it has been reached. The June 7 letter relates to the former matter while the December 6 letter relates to the latter.

² The December 6 letter to the Federal Reserve Bank of New York requested substantively similar information and records as the Committee's November 6 letter to the Department. In its April 8 letter, the Department noted that it was responding on behalf of the Federal Reserve Bank of New York because, in the Department's view, the Bank served as its "fiscal agent" on matters implicated by the Committee's inquiry. For purposes of this letter, the Committee assumes that the Federal Reserve Bank of New York serves as the Department's "fiscal agent" with respect to such matters. However, as the Committee has previously informed both the Department and the Federal Reserve Bank of New York, the existence of a "fiscal agent" relationship does not inhibit the Committee's right to obtain information relating to that relationship directly from the agent; the Committee recognizes common law privileges in its discretion only.

Unfortunately, the Committee cannot consider the Department's April 8 letter as a full and complete response to the Committee's June 7, November 6, and December 6 letters. For example, while the Committee has sometimes agreed to a preliminary *in camera* review as a courtesy to the Executive Branch — and without waiving its right to obtain custody and control of the records under review — it cannot do so at this time given the conditions set by the Department: the records have been redacted to “protect” prosecutorial deliberations and information relating to pending enforcement matters, even though the Committee has a right to review such information where, as here, its review would aid Congress's exercise of the legislative power. Separate from this issue, the Department has failed to locate all records responsive to the November 6 letter in a timely manner; as the Department conceded in its April 8 letter, it is still “working to identify and review [responsive] documents” five months after receiving the Committee's request. The records already produced by the Department therefore are likely to represent, at best, a fraction of the materials sought by the Committee. Finally, the written answers provided by the Department and the Federal Reserve Bank of New York in response to the November 6 and December 6 letters appear substantively incomplete.

Notwithstanding the Department's failure to respond in full to the Committee's March 25 letter, the Committee appreciates the Department's commitment, expressed in its April 8 letter, to “work[] cooperatively with the Committee” to resolve the forgoing outstanding requests for records and information. The Committee anticipates working with the Department to obtain the requested materials in a manner that preserves inviolate the Committee's constitutionally-grounded right to scrutinize the operations of the Executive Branch and to gather information in aid of the legislative function. Accordingly, please produce all requested records in unredacted form without delay.³ In addition, please provide full and complete written responses to the questions posed in each of the November 6 and December 6 letters. While the Committee stands ready to work with the Department to secure the expeditious production of these materials, please know that the Committee will soon notice a business meeting to take place on May 7, 2014, for the purpose of authorizing subpoenas to compel the production of any withheld records and the testimony of witnesses with knowledge pertinent to the matters under investigation by the Committee.⁴

³ The Committee will not consider the Department's production as complete until a representative of the Department certifies in writing that the Department (including any agent such as the Federal Reserve Bank of New York) conducted a search that was reasonably calculated to locate all records responsive to the June 7, November 6, and December 6 letters and that the Department produced to the Committee all known responsive records in its or any agent's custody or control. In addition, the Department's obligation to produce records is continuing in nature; if, after tendering the written certification required herein, the Department becomes aware of any responsive record in its or any agent's custody or control, the record should be promptly produced.

⁴ Should it become necessary to authorize subpoenas, the Committee expects that it will subpoena all entities with custody of records relating to the above-described matters including, in addition to the Department, the Federal Reserve Bank of New York. Similarly, the Committee anticipates subpoenaing all appropriate witnesses, including witnesses employed by the Federal Reserve Bank of New York.

The Honorable Jacob Lew
April, 25 2014
Page 3

Please contact J.W. Verret or Joseph Clark of Committee staff at (202) 225-7502 with any questions regarding this matter.

Sincerely,



JEB HENSARLING
Chairman



PATRICK McHENRY
Chairman
Subcommittee on Oversight
and Investigations

cc: The Honorable Maxine Waters,
Ranking Member

The Honorable Al Green
Ranking Member
Subcommittee on Oversight and Investigations

William Dudley
President
Federal Reserve Bank of New York

Appendix 26

Letter from Jeb Hensarling, Chairman, Committee on Financial Services and Patrick McHenry, Chairman, Subcommittee on Oversight and Investigations to Jack Lew, Secretary, U.S. Department of the Treasury (June 20, 2014)

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

June 20, 2014

The Honorable Jacob Lew
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20500

Dear Secretary Lew:

In testimony before the Senate Committee on Finance on October 10, 2013, when asked whether the Treasury Department (“Department”) could prioritize payments on Treasury bonds in the event the debt ceiling was not lifted — thereby ensuring that a default on Treasury bonds could be averted and market panic could be forestalled — you testified:

We [the Department] write roughly 80 million checks a month. The systems are automated to pay because for 224 years, the policy of Congress and every president has been we pay our bills. You cannot go into those systems and easily make them pay some things and not other things. They weren’t designed that way because it was never the policy of this government to be in the position that we would have to be in if we couldn’t pay all our bills.

In a May 7, 2014 letter to the Committee on Financial Services (“Committee”), you painted a somewhat different picture of the technological feasibility of prioritization:

If the debt limit were not raised, and assuming Treasury had sufficient cash on hand, the New York Fed’s systems *would be technologically capable* of continuing to make principal and interest payments while Treasury was not making other kinds of payments, although this approach would be entirely experimental and create unacceptable risk to both domestic and global financial markets.

(Emphasis added.)

Departmental and Federal Reserve System documents reviewed by the Committee staff demonstrate that, as early as March 2013, Department and Federal Reserve Bank of New York staff had documented in writing and in painstaking detail the steps the Department would take to successfully carry out any directive to prioritize payments on Treasury bonds if the debt ceiling were not raised. These plans raise the question whether you knew or should have known that it was possible to prioritize such payments when you testified before the Senate Finance Committee in October 2013. The plans additionally raise the question whether there was an adequate factual basis for your assertion that “[y]ou cannot go into those [payment] systems and easily make them pay some things and not others.” Documents and e-mails reviewed by the Committee staff relating to planning in the event the Department chose not to fully prioritize debt payments — despite its apparent ability to

fully make such payments — also call into question the basis for your testimony; such planning suggests that the government could pay certain bonds while rolling forward the dates on other bonds.

- I. Documents indicating that the Department and/or the Federal Reserve System could fully prioritize Treasury bond payments and thereby prevent default on Treasury bonds

The following documents reviewed by the Committee staff suggest that the Department could instruct the Federal Reserve Bank of New York to process principal and interest payments on Treasury obligations if the debt ceiling were not raised, and that the Bank's payment systems could carry out those instructions:

- “WPO Treasury Debt Ceiling Internal Securities Procedures (March 2013) [See Document from Bates Stamp # 224-#244]
- “Fedwire Securities Delayed Payment Support”(September 2013); and
- “Fedwire Securities Delayed Payments Wholesale Internal Walkthrough (October 2013) [See Document beginning at Bates Stamp # 308]”

The documents, which were prepared by the Federal Reserve Bank of New York prior to your Senate Finance Committee testimony, exhaustively detail how the Department and the Bank would implement any plan to prioritize payments on Treasury bonds. For example, they describe how, during any “suspension period,” the Department could determine whether sufficient funds existed to make payments scheduled for settlement the next day and that, if the Department “determine[d] to make principal and interest payments (or only the interest payments), the payment wires [would] need to be released no later than 4 p.m. Eastern.”¹ The documents include sample e-mails for use by the Department and/or the Federal Reserve to communicate the Department's actions to third parties and to communicate the Department's instructions to the NY Fed; they further describe how status messages could be posted to an Internet-based portal accessible to such third parties. The documents also include a dial-in number and passcode for Treasury and Federal Reserve staff to communicate with each other about debt ceiling prioritization efforts.

Simply put, the documents do not appear to support your October 2013 testimony that “[y]ou cannot go into those [payment] systems and easily make them pay some things and not other things.” In fact, the Committee's preliminary review suggests that the Department failed to share with the American public, and with holders of U.S. Treasury debt, material information that could have prevented needless market volatility in the Treasury bond market in the period leading up to the congressional debate over the debt ceiling. A similar misleading representation by an issuer of publicly traded corporate bonds could result in exposure to liability for securities fraud.

¹ The documents the Department made available for the Committee's review do not provide an adequate basis to fully assess the Department's unsubstantiated claim that it might not be able to raise sufficient funds in auctions to continue making principal payments if the debt ceiling were not raised. Documents in the Department's possession that have not yet been produced may contain information probative of this question.

- II. Documents and e-mails reflecting additional planning by the Federal Reserve Bank of New York to minimize market disruptions if the Department decided to partially delay Treasury bond payments

Nothing in the documents indicates that the Department would be unable to prioritize payments on Treasury obligations. Yet the documents also indicate that out of an abundance of caution the Federal Reserve further engaged in extensive planning to prepare for the contingency that the Department would choose not to prioritize Treasury bond payments, and choose to default on those obligations, in order that the Department might cause a brief market panic and thereby induce a quick resolution of the debt ceiling vote.

Those documents, as well as various emails to which James Narron (the official then in charge of the Federal Reserve Bank of New York's Fedwire Securities System) is a party, demonstrate that the Federal Reserve had extensive operational plans in place to roll forward maturity dates on outstanding securities (including choosing to roll forward only some batches of securities on a particular maturity date); to track any maturity dates rolled forward and make future payments on deferred payments; and to continue "business as usual" with respect to discount window acceptance of Treasury obligations as collateral and to continue to value that collateral.² The Federal Reserve Bank of New York also determined during previous planning efforts in 2011 that even if the debt ceiling were not lifted "[d]uring the summer of 2011, most large clearing banks indicated they would likely still be able to clear trades and perform other services for their clients including custody services, tri-party repurchase agreements, and securities lending, albeit with substantial manual intervention."³

In the event that the Department chose to default on principal and interest payments, despite its clear ability to prevent that from occurring, the Federal Reserve was also prepared to conduct open market operation repo transactions directly with dealers to further forestall market disruption caused by an unfortunate decision by the Department to default.⁴

In a scenario in which the Department chose to default, the Federal Reserve further determined that legislation may be required to compensate "holders of securities affected by delayed payment on Treasury debt for the delay in these payments" but that "market prices of Treasury securities would take into account the possibility of such compensatory payments[.]"⁵ Accordingly, the Federal Reserve proposed policies and procedures to accommodate such compensatory payments in planning documentation which would have been of considerable material value to potentially affected debt holders in 2013.⁶

It is clear that these documents and emails would provide financial markets with substantial comfort the next time that the Congress and the President contemplate a vote

² See e.g., Bates Stamp #578, 747, 759, 899.

³ See Bates Stamp #882.

⁴ See Bates Stamp # 1064-1065.

⁵ See Bates Stamp # 884.

⁶ *Id.*

The Honorable Jacob Lew

June 20, 2014

Page 4

to increase the debt ceiling. It is clear that the substantial benefit of this information to the American public outweighs any political calculation that has led you to keep these materials secret.

III. Conclusion

We note that the Department has thus far failed to cooperate fully and completely with the Committee's legitimate oversight and that the Department's failure may have inhibited the Committee's assessment of the Administration's debt ceiling contingency planning. First, the Department has permitted the Committee to review the above-described documents, together with certain other documents, on an *in camera* basis only, notwithstanding that the documents — marked merely as "sensitive but not classified" — are not subject to a legal privilege that might qualify the Committee's right to obtain custody and control of them. Second, despite the Committee's previous requests, the Department has failed to provide assurances that it produced all known responsive documents for the Committee's *in camera* review. As a result, the Committee cannot rule out that the Department has withheld responsive documents in its possession.

It may have been in the Department's strategic political interest to keep its extensive debt ceiling contingency plans secret during 2013. This Committee nevertheless has an obligation to insist that those secret debt ceiling plans be shared with the American people without further delay. We trust that the American people and holders of U.S. Treasury debt will then be in a position to reach their own informed conclusion about the veracity of your statements concerning the debt ceiling. Accordingly, by July 1, 2014, please produce all documents and other records that are responsive to the Committee's previous requests on this matter. In addition to producing the documents previously reviewed by the Committee on an *in camera* basis, please produce any other known responsive documents and records.

Please contact J.W. Verret or Joseph Clark of Committee staff at (202) 225-7502 with any questions regarding this matter.

Sincerely,



JEB HENSARLING
Chairman



PATRICK McHENRY
Chairman
Subcommittee on Oversight
and Investigations

cc: The Honorable Maxine Waters
The Honorable Al Green
The Honorable William Dudley

Appendix 27

Letter from Alastair Fitzpayne, Assistant Secretary for Legislative Affairs, U.S. Department of the Treasury to Jeb Hensarling, Chairman, Committee on Financial Services (March 14, 2014)



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

March 14, 2014

The Honorable Jeb Hensarling
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Hensarling:

I am writing in response to your letter regarding the debt limit.

We welcome Congress's passage of the Temporary Debt Limit Extension Act, which extended the government's borrowing authority through March 15, 2015, and thus removed the threat of a default. This bipartisan action, combined with the two-year budget agreement and the omnibus spending bill, will provide certainty and stability to businesses and financial markets and should add momentum to economic growth.

Your letter asked about planning in the event of a failure to raise the debt limit, including the possibility of prioritizing certain payments over others. Congress's recent action to extend the debt limit makes such planning unnecessary, and we are hopeful that this bipartisan action marks the beginning of a new approach in which the full faith and credit of the United States is not subject to brinksmanship.

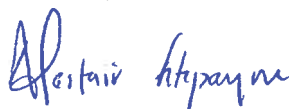
As you know, the debt limit brinksmanship in 2011 resulted in the first downgrade of the United States' credit rating in our history and created a drag on our economy. In 2013, the combination of debt limit brinksmanship and a government shutdown shook business and consumer confidence and hurt the economy. Following those events, we were heartened by the recognition on the part of leaders in the House and Senate of the need to end the pattern of manufactured crises. Recent history demonstrates that jeopardizing the full faith and credit of the United States distracts from efforts to strengthen the economy and create jobs.

Your letter alludes to a hypothetical situation that can and should remain unthinkable—that Congress would, for the first time in history, fail to extend the nation's borrowing authority in order to meet our country's commitments. Nevertheless, we provide below some information about our prior planning efforts in response to your questions. We also note that you have already been provided with answers to your questions about the Fedwire Securities System. As you know, the New York Fed acts as our fiscal agent in this context, and we have advised the New York Fed that requests for further information on these topics should be directed to Treasury.

Treasury has in the past considered a range of options with respect to how we might operate if the United States exhausted its borrowing authority. As previous Secretaries of the Treasury have concluded, there is no option other than raising the debt limit that could reasonably protect the full faith and credit of the United States, the American economy, or individual citizens from very serious harm. With respect to proposals to prioritize certain payments over others, the idea of “prioritization” has been rejected by every President and Secretary of the Treasury who has considered it. It is unwise, unworkable, unacceptably risky, and unfair to the American people. During the recent debt limit impasses, no final decisions were ever made because Congress took action to extend the debt limit. More information on Treasury’s consideration of various options can be found in an August 2012 letter that the Council of Inspectors General on Financial Oversight (CIGFO) wrote in response to an inquiry from Senator Hatch. A copy of that letter is enclosed.

Unlike planning in the event of a natural disaster or other exogenous event, planning for the exhaustion of borrowing authority should be unnecessary because raising the debt limit is fully within Congress’s control. Engaging in speculation that Congress might not fulfill its responsibility could put at risk confidence in the economic recovery. To build real, lasting economic security we need to focus on building on the bipartisan progress in recent months and creating more opportunities for all Americans to get ahead. We are eager to continue partnering with Congress in these efforts on behalf of the American people.

Sincerely,



Alastair M. Fitzpayne
Assistant Secretary for Legislative Affairs

Enclosure

Identical letter sent to:

The Honorable Patrick McHenry

cc: The Honorable Maxine Waters
The Honorable Al Green

Appendix 28

Letter from Thomas Baxter, Jr., General Counsel and Executive Vice President,
Federal Reserve Bank of New York to J.W. Verret, Chief Economist, Committee on
Financial Services (December 5, 2013)

FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

THOMAS C. BAXTER, JR.
GENERAL COUNSEL AND
EXECUTIVE VICE PRESIDENT

December 5, 2013

VIA FEDERAL EXPRESS AND ELECTRONIC MAIL

Mr. J.W. Verret
Chief Economist
U.S. House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

Dear Mr. Verret:

I am responding to Chairman Hensarling's letter to William Dudley dated November 6, 2013. In that letter, Chairman Hensarling poses certain questions to the Federal Reserve Bank of New York ("New York Fed"), and also requests that we produce certain records.

The questions posed are directed toward issues arising from the way in which the Reserve Banks operate the Fedwire Securities System. As you know, the Fedwire Securities System is used to issue, maintain and transfer, in electronic form, all marketable U.S. Treasury securities, as well as many securities issued by federal government agencies, government sponsored enterprises and certain international organizations. Attached are responses to the questions posed by Chairman Hensarling, which we have prepared on the basis of information received from New York Fed staff.

The letter also requests that we produce certain records, all of which appear to relate to functions performed by the New York Fed as fiscal agent of the Treasury, in accordance with Section 15 of the Federal Reserve Act. Consistent with our duties as fiscal agent,¹ we have sought authorization from our fiscal principal to provide these records to you. Given our belief

¹ Restatement (Third) of Agency (2006) §§ 8.01 (duty of loyalty); 8.05, 8.06 (restrictions on communications of confidential information to third parties without consent); 8.09 (duty to act within scope of authority and to follow lawful instructions); 8.11 (duty to disclose material facts).

FEDERAL RESERVE BANK *of* NEW YORK

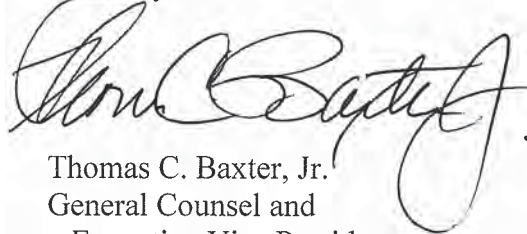
Mr. J.W. Verret
December 5, 2013

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that the requested records are non-public records, we are unable to produce these records until and unless we receive appropriate authorization from Treasury.

If you have further questions, or if you would like to follow up on the attachment to this letter or the letter itself, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Baxter, Jr.", written in a cursive style.

Thomas C. Baxter, Jr.
General Counsel and
Executive Vice President

Enclosure

cc: Chris Meade, Esq., General Counsel, U.S. Department of the Treasury
Travis Norton, Esq., General Counsel, Committee on Financial Services
Lawranne Stewart, Esq., Chief Counsel, Committee on Financial Services

1. Would the New York Fed, or any other governmental department, agency, or instrumentality involved with the operations of the Fedwire Securities System, be capable of identifying any payments that are not timely made utilizing the Fedwire Securities System.

The Fedwire Securities System is only used to make the following payments: Payments (a) of principal to security holders when securities held in the system are redeemed or mature, (b) of interest to security holders for securities held in the system, and (c) in connection with the purchase of securities on original issuance on the system or, at the request of the seller of the securities, in a secondary market transaction that results in the transfer of the security against payment on the books of the Reserve Banks. We assume for purposes of this question that you are only interested in principal and interest payments on U.S. Treasury securities held on the Fedwire Securities System.

As noted in the Payment System Risk Policy issued by the Board of Governors of the Federal Reserve System and available at http://www.federalreserve.gov/paymentsystems/psr_policy.htm, the Fedwire Securities System is designed such that principal and interest payments relating to U.S. Treasury and government agency securities are automatically credited to Reserve Bank customer accounts by 9:15 a.m. E.T. on the payment date. Accordingly, with respect to a specific Treasury security, in addition to the New York Fed and the Treasury Department, any party that holds such security directly in an account with a Reserve Bank (generally financial institutions) would be capable of identifying any payments of principal and interest that are not timely made under the terms of the Policy with respect to such security.

2. If the Treasury Department instructed the New York Fed to make certain payments over the Fedwire Securities System while directing that it forbear from making certain other payments, or if the Treasury Department gave such instructions directly to the Fedwire Securities System, could the Fedwire Securities System operate consistent with such instructions? If so, please assess the feasibility of accommodating that instruction; if not, please assess the feasibility of programming the Fedwire Securities System so that it could accommodate such an instruction.

As noted in the response to question 1, the only Treasury payments made over the Fedwire Securities System are principal and interest payments on Treasury securities. We therefore interpret your question to be whether the New York Fed could forbear making payments of principal and interest on Treasury securities. So long as the Treasury Department directed the New York Fed to refrain from making a scheduled principal and/or interest payment on a specific security before approximately 7:30 a.m. on the payment date, the New York Fed could take steps to prevent the payment from automatically occurring as scheduled. It is not operationally feasible to direct the New York Fed to pay only certain holders of the security or to

pay all holders of the security some lesser amount, and programming the applicable software to do so would likely require a multi-year development effort and a significant investment of financial resources.

There are other factors that might require the Treasury Department to make its decision to refrain from paying principal known to the New York Fed well before the 7:30 a.m. cutoff noted above. Specifically, in order to enable a Treasury security that is scheduled to mature to remain transferable on the Fedwire Securities Service from one Fedwire Securities account to another on and after the scheduled maturity date, the New York Fed must receive direction from the Treasury that it will not pay principal before the New York Fed completes its Fedwire Securities Service end of day processing on the business day before the scheduled maturity date.

3. Has the New York Fed, in its role as the operator of the Fedwire Securities System, ever engaged in any planning (whether in coordination with or independent from the Treasury Department) to consider how or whether to continue making principal and interest payments on Treasury debt if the nation's borrowing limit is not raised.

The New York Fed has taken steps to determine the operational capabilities of the Fedwire Securities System to continue making a scheduled principal and/or interest payment subject to a determination that the Treasury General Account is projected to have a sufficient cash balance or, upon instruction from Treasury, to refrain from automatically making a scheduled principal and/or interest payment or to make transferable a matured but defaulted Treasury security. The New York Fed has also identified the timeframes within which certain decisions would have to be made in order to allow the New York Fed to delay a scheduled principal and/or interest payment or to ensure the transferability of a matured but defaulted Treasury security, as described above in the response to question 2.

Appendix 29

Letter from Thomas Baxter, Jr., General Counsel and Executive Vice President,
Federal Reserve Bank of New York to J.W. Verret, Chief Economist, Committee on
Financial Services (April 8, 2014)

FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

THOMAS C. BAXTER, JR.
GENERAL COUNSEL AND
EXECUTIVE VICE PRESIDENT

April 8, 2014

VIA E-MAIL

Mr. J.W. Verret
Chief Economist
U.S. House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

Dear Mr. Verret:

I am responding to Chairmen Hensarling's and McHenry's letter to William Dudley dated March 25, 2014.

As noted in previous correspondence, the documents requested by the Financial Services Committee ("Committee") relate to the New York Fed's statutory role as fiscal agent to the United States Department of the Treasury ("Treasury"). Treasury has informed the New York Fed, as its fiscal agent, that Treasury will respond today to the Committee on behalf of both Treasury and the New York Fed.

Sincerely,



Thomas C. Baxter, Jr.
General Counsel and
Executive Vice President

cc: The Honorable Maxine Waters
The Honorable Al Green

Appendix 30

Letter from Thomas Baxter, Jr., General Counsel and Executive Vice President, Federal Reserve Bank of New York to Jeb Hensarling, Chairman, Committee on Financial Services (March 27, 2015)

FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

THOMAS C. BAXTER, JR.
GENERAL COUNSEL AND
EXECUTIVE VICE PRESIDENT

March 27, 2015

VIA FEDERAL EXPRESS AND ELECTRONIC MAIL

The Honorable Jeb Hensarling
Chairman
United States House of Representatives Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Hensarling:

I am responding to your letter to William Dudley dated March 10, 2015 regarding your November 6, 2013 request for information (the "November 2013 Request") from the Federal Reserve Bank of New York (the "Bank").

The November 2013 Request posed questions regarding the functionality of the Fedwire Securities Service and sought documents relating to any plan for whether or how to continue making principal and interest payments on Treasury debt if the nation's debt limit were not raised. On December 5, 2013, we provided written answers to the questions, but informed you that because the requested documents related to functions performed by the Bank in its capacity as fiscal agent of the U.S. Department of the Treasury ("Treasury"), we had a legal duty to receive authorization from our fiscal principal, Treasury, before producing the documents.

Treasury advised the Bank that it would address the Committee's Request on the Bank's behalf. We conducted a search, and in April 2014, we provided to Treasury documents that are potentially responsive to the November 2013 Request, which sought (i) communications relating to the October 10, 2013 testimony of Secretary Jacob Lew before the Senate Finance Committee and (ii) documents relating to any plan for whether or how to continue making principal and interest payments on Treasury debt if the nation's debt limit were not raised. We understand that Treasury made available to you and your staff documents from the Bank regarding Secretary Lew's testimony to the Committee on April 8, 2014. We also understand that Committee staff reviewed documents from the Bank concerning the Fedwire Securities Service, including documents discussing the operational capabilities of the Fedwire Securities Service to refrain

FEDERAL RESERVE BANK *of* NEW YORK

The Honorable Jeb Hensarling

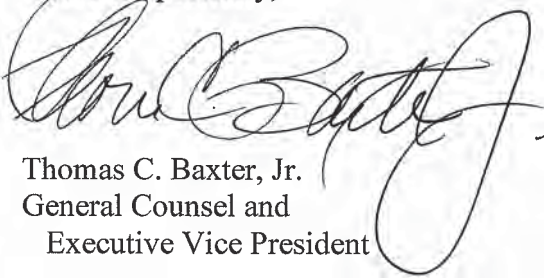
March 27, 2015

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from automatically making a scheduled principal or interest payment on Treasury debt, and we have reviewed correspondence from the Committee that references some of our documents that Treasury made available.¹ To the extent the Committee still has questions, we urge you to contact Treasury.

Please do not hesitate to contact me should you have further questions.

Yours Respectfully,

A handwritten signature in black ink, appearing to read "Tom Baxter, Jr.", written in a cursive style. The signature is positioned above the printed name and title.

Thomas C. Baxter, Jr.
General Counsel and
Executive Vice President

cc: The Honorable Maxine Waters, Ranking Member

¹ See letter from Chairmen Hensarling and McHenry to Secretary Lew dated June 20, 2014 at 2-3 (discussing the substance of Bank presentations and emails).

Appendix 31

Letter from Jeb Hensarling, Chairman, Committee on Financial Services and Patrick McHenry, Chairman, Subcommittee on Oversight and Investigations to Jack Lew, Secretary, U.S. Department of the Treasury (December 6, 2013)

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515
December 6, 2013

The Honorable Jacob Lew
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20500

Dear Secretary Lew:

As you know, legislation to increase the authorized borrowing level for the U.S. government through February 2014 was signed into law on October 16, 2013. While the debate over the debt ceiling reflected fundamental disagreements about our nation's fiscal priorities, there was general consensus that a default on U.S. sovereign debt was potentially catastrophic and must be avoided.

This public policy imperative heightens the importance of congressional oversight to ensure that the Department of the Treasury ("Treasury Department") and/or the Federal Reserve System, including the Federal Reserve Bank of New York ("New York Fed") (collectively, the "Federal Reserve"), have a contingency plan in place for averting a default on the debt. We believe that such a contingency plan was being formulated during the summer of 2011 during the "fiscal cliff" negotiations as reported by the *Wall Street Journal*:

During the last big debt-ceiling standoff, in the summer of 2011, the Treasury Department was in advanced internal discussions about prioritizing interest payments on government debt ahead of other bills, but the decisions didn't have to be activated because Congress raised the debt ceiling, according to a person familiar with the planning.¹

Your testimony before the Senate Committee on Finance on October 10, 2013, however, calls into question the Treasury Department's ability to execute a contingency plan. You testified:

We [the Department] write roughly 80 million checks a month. The systems are automated to pay because for 224 years, the policy of Congress and every president has been we pay our bills. You cannot go into those systems and easily make them pay some things and not other things. They weren't designed that way because it was never the policy of this government to be in the position that we would have to be in if we couldn't pay all our bills.²

It is difficult to understand how the Treasury Department was developing a contingency plan to prioritize payments on sovereign debt as reported by the *Wall Street Journal* if payment systems operated by or on behalf of the Treasury Department cannot be programmed to make that happen.

¹ Deborah Solomon & Dan Strumpf, *Top Bankers Warn on U.S. Debt Proposal*, Wall St. J., October 7, 2013.

² *The Debt Limit: Hearing Before the S. Comm. on Finance*, 113th Cong. ____ (2013) (statement of Hon. Jacob Lew, Secretary, Dep't of Treas.), available at <http://www.finance.senate.gov/hearings>.

In light of these conflicting statements, Financial Services Committee staff contacted the New York Fed, which operates the Fedwire securities payment system by which the Treasury Department makes payments on Treasury bonds (“Fedwire Securities System”), to learn more about the Fedwire Securities System. In particular, Committee staff sought to learn whether the technology of the platform would allow the Treasury Department to make some payments and not others. New York Fed staff declined to provide responsive answers to the Committee’s questions, however, on the ground that the requested information was subject to a confidentiality interest arising from an alleged “principal-agent relationship” between the New York Fed and the Treasury Department. In a letter dated December 5, 2013, New York Fed General Counsel Thomas C. Baxter informed the Committee that he has sought permission from your Department to provide the information and records that the Committee requested.

We were disappointed by the New York Fed’s response, because such a “confidentiality interest” — if it existed — would not bar the Committee’s oversight. As you are aware, the present inquiry directly relates to matters within the Committee’s jurisdiction, such as what effect a default on sovereign debt would have on capital markets. Because the President has not invoked “presidential communications privilege” (otherwise known as “executive privilege”) with respect to the requested information, there is no basis on which the Executive Branch or its agents might conceivably be justified in withholding the information. We will inform the New York Fed in separate correspondence of these basic constitutional principles but anticipate that the Treasury Department will also do so to ensure an expedited response to the Committee’s request. Additionally, please transmit to the Committee, not later than December 18, 2013, responses to the following questions and unredacted copies of the records sought below.

Questions

1. Would a governmental department, agency, or instrumentality involved with the operation of the Fedwire Securities System, be capable of identifying any payments that are not timely made utilizing the Fedwire Securities System?
2. If the Treasury Department instructed the New York Fed to make certain payments over the Fedwire Securities System while directing that it forbear from making certain other payments, or if the Treasury Department gave such instructions directly to the Fedwire Securities System, could the Fedwire Securities System operate consistent with such instructions? If so, please assess the feasibility of accommodating that instruction; if not, please assess the feasibility of programming the Fedwire Securities System so that it could accommodate such an instruction.
3. Has the Treasury Department engaged in any planning (whether in coordination with or independent from the Federal Reserve or any other government department, agency, or instrumentality) to consider how or whether to continue making principal and interest payments on Treasury debt if the nation’s borrowing limit is not raised?

December 6, 2013

Records Requested:³

1. Records, whether in final or draft form, associated with any meeting of the Federal Open Market Committee (including without limitation meetings occurring on August 1, 2011 and October 16, 2013) that relate to one or both of the following: (i) issues associated with contingencies in the event the Treasury Department was temporarily unable to meet its obligations because the debt ceiling were not raised; (ii) related plans that the Treasury Department and/or the Federal Reserve developed regarding the processing of federal payments.
2. The names and titles of staff who briefed the FOMC on the matters described in Request 1 above.
3. Communications between the Treasury Department and the Federal Reserve and any other communications to which the Treasury Department is a party relating to the October 10, 2013, testimony of Secretary Lew before the Senate Finance Committee, as well as the names and titles of staff who were a party to any such communications and any other records related to such communications.
4. Communications and other records, whether in final or draft form, relating to any plan for whether or how to continue making principal and interest payments on Treasury debt if the nation's borrowing limit is not raised.

If you have questions concerning this request, please contact J.W. Verret of the Committee staff at (202) 225-7502.

Sincerely,



JEB HENSARLING
Chairman



PATRICK MCHENRY
Chairman,
Subcommittee on Oversight and
Investigations

cc: The Honorable Maxine Waters, Ranking Member
The Honorable Al Green, Ranking Member, Subcommittee on Oversight and
Investigations

³ The term "records" means any written, recorded, or graphic matter of any nature whatsoever, regardless of how recorded or preserved, and whether original or copy.

Appendix 32

Letter from Jeb Hensarling, Chairman, Committee on Financial Services and Patrick McHenry, Chairman, Subcommittee on Oversight and Investigations to Jack Lew, Secretary, U.S. Department of the Treasury (January 30, 2014)

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

January 30, 2014

The Honorable Jacob Lew
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20500

Dear Secretary Lew:

On December 6, 2013, we requested that you provide the Committee on Financial Services with information relating to the ability of the Department of the Treasury and/or the Federal Reserve System to prioritize interest payments on government debt in the event the debt ceiling was not raised. That letter requested that you provide written answers and documents responsive to the questions posed by the Committee not later than December 18, 2013. Your response is now overdue by more than one month. Accordingly, we respectfully insist that the Department respond in full to the Committee's letter without further delay.

If you have questions regarding this request, please contact J.W. Verret of Committee staff at (202) 225-7502.

Sincerely,



JEB HENSARLING
Chairman



PATRICK McHENRY
Chairman
Subcommittee on Oversight
and Investigations

cc: The Honorable Maxine Waters, Ranking Member
The Honorable Al Green, Ranking Member, Subcommittee on Oversight and
Investigations

Appendix 33

Letter from Jeb Hensarling, Chairman, Committee on Financial Services and Patrick McHenry, Chairman, Subcommittee on Oversight and Investigations to Jack Lew, Secretary, U.S. Department of the Treasury (March 25, 2014)

March 25, 2014

VIA FIRST CLASS MAIL

The Honorable Jacob Lew
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20500

Dear Secretary Lew:

As you know, the Committee on Financial Services is investigating whether the United States can continue to make payments on government debt in the event the statutory debt limit is not raised when it has been reached. The Treasury Department has failed to provide records and responses to questions as requested by the Committee in the following:

- 1) Letter from Chairmen Hensarling and McHenry to the Treasury Secretary dated December 6, 2013.

In addition, the Committee is investigating whether the Department of Justice has settled or otherwise declined to prosecute criminal matters involving large financial institutions due to concerns that any prosecution could impair the financial system's ability to provide essential functions and services. The Treasury Department has failed to provide records relating to this investigation as requested by the Committee in the following:

- 2) Letter from Chairman McHenry to the Treasury Secretary dated June 7, 2013.

By not later than April 8, 2014, please provide the records and written responses that the Committee is seeking. Any failure by the Treasury Department to produce the requested materials would frustrate the Committee's legitimate oversight efforts and impair the separation of powers by depriving Congress of information necessary to the exercise of the legislative power. Accordingly, if the Treasury Department does not comply with this request, the Committee will authorize and issue a subpoena *duces tecum* to compel the production of all requested records. In addition, the Committee will authorize and issue a subpoena *ad testificandum* to compel the testimony of all appropriate Treasury Department witnesses relating to the questions posed by the Committee's letters, the records requested therein, and any other matters deemed appropriate and within the Committee's jurisdiction.

Honorable Jacob Lew

Page 2


March 25, 2014

If you have questions regarding this request, please contact J.W. Verret or Joseph Clark of Committee staff at (202) 225-7502.

Sincerely,



JEB HENSARLING
Chairman



PATRICK McHENRY
Chairman
Subcommittee on Oversight
and Investigations

cc: The Honorable Maxine Waters,
Ranking Member

The Honorable Al Green
Ranking Member
Subcommittee on Oversight and Investigations

Appendix 34

Letter from Jeb Hensarling, Chairman, Committee on Financial Services to Jack Lew, Secretary, U.S. Department of the Treasury (March 10, 2015)

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

March 10, 2015

The Honorable Jacob Lew
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20500

Dear Secretary Lew:

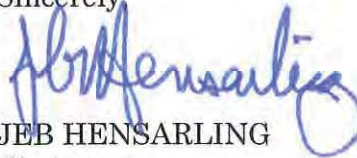
The U.S. Department of the Treasury (Treasury) has not complied with the following information requests from the Committee on Financial Services (Committee):

1. Letter from Chairman McHenry dated June 7, 2013.
2. Letter from Chairmen Hensarling and McHenry dated December 6, 2013.

Your failure to comply with these requests constitutes the improper withholding of information that will aid the Committee's examination of the operation and effectiveness of laws or programs within the Committee's jurisdiction. To allow the Committee to fulfill its oversight responsibilities under the House Rules,¹ please provide the Committee with unredacted copies of all previously requested records by March 24, 2015.² If you do not fully comply with this request by the specified date, I will authorize and issue a subpoena *duces tecum* to compel the production of the requested information pursuant to Committee Rule 3.

If you have any questions regarding this request, please contact Joe Gammello of the Committee staff at (202) 225-7502.

Sincerely,



JEB HENSARLING
Chairman
Committee on Financial Services

cc: The Hon. Maxine Waters, Ranking Member

¹ Rule X, Rules of the House of Representatives, 114th Cong.

² The Committee will not consider the (Treasury's) production as complete until a representative of Treasury certifies in writing that Treasury conducted a search reasonably calculated to locate all responsive records and that Treasury produced to the Committee all known responsive records in its or any agent's custody or control. In addition, Treasury's obligation to produce records is continuing in nature; if, after tendering the written certification required herein, Treasury becomes aware of any responsive record in its or any agent's custody or control, the record should be promptly produced.

Appendix 35

Letter from Thomas Baxter, Jr., General Counsel and Executive Vice President, Federal Reserve Bank of New York to Jeb Hensarling, Chairman, Committee on Financial Services (May 26, 2015)

FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

THOMAS C. BAXTER, JR.
GENERAL COUNSEL AND
EXECUTIVE VICE PRESIDENT

May 26, 2015

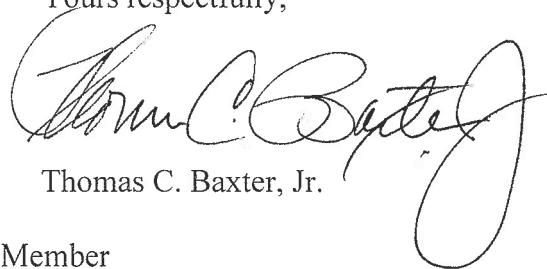
VIA FEDERAL EXPRESS AND ELECTRONIC MAIL

The Honorable Jeb Hensarling
Chairman
United States House of Representatives Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Hensarling:

I write with regard to the subpoena served on the Federal Reserve Bank of New York (the “New York Fed”) by the House Financial Services Committee (the “Committee”) on May 11, 2015 (the “Subpoena”). The Subpoena calls for the New York Fed to produce documents relating to the debt limit. These are documents concerning the New York Fed’s activities as the statutory fiscal agent of the United States Treasury Department (“Treasury”). Treasury has advised us that Treasury is working with the Committee to respond to the Subpoena, and will be addressing the Subpoena on behalf of both the Treasury (the fiscal principal) and the New York Fed (the fiscal agent).

Yours respectfully,



Thomas C. Baxter, Jr.

cc: The Honorable Maxine Waters, Ranking Member

Appendix 36

Letter from Randall DeValk, Acting Assistant Secretary for Legislative Affairs, U.S. Department of the Treasury to Jeb Hensarling, Chairman, Committee on Financial Services (May 26, 2015)



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

May 26, 2015

The Honorable Jeb Hensarling
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Hensarling:

I write on behalf of the Department of the Treasury and its statutory fiscal agent, the Federal Reserve Bank of New York, in response to your May 11, 2015 subpoenas to Treasury for documents related to the Department of Justice's prosecutorial decision-making with respect to HSBC Bank, and to Treasury and the New York Fed for documents related to the debt limit. Since 2013, Treasury has been addressing the Committee's interest in these matters through numerous letters and, on behalf of itself and the New York Fed, has been cooperating with the Committee to provide relevant documents and answers to the Committee's information requests.

We are continuing our efforts to work with your staff to address the Committee's needs. Treasury has invited the Committee to review the approximately 400 pages we identified as responsive to the HSBC inquiry. Treasury has also invited the Committee to discuss any questions concerning the debt limit the Committee considers unresolved by Treasury's in camera production of over 1,300 pages. Both of these offers still stand. Moreover, Treasury remains committed to cooperating with the Committee, and as described below, we are taking further steps to make documents available to the Committee.

I. Requests Regarding Prosecutorial Decisions

Over the course of the past two years, Treasury has consistently cooperated with the Committee's examination of DOJ's prosecutorial decisions in matters involving large financial institutions. The Committee's initial inquiries to Treasury, dated March 8 and March 20, 2013, requested economic analyses prepared by Treasury for DOJ regarding the potential effect that prosecutions of large financial institutions would have on the financial system's ability to provide essential functions and services. Treasury conducted a search of its records and informed the Committee, in letters dated March 28 and May 10, 2013, that we had not identified any such analyses. On May 2, 2014, the Committee confirmed that it was satisfied with Treasury's response.

On June 7, 2013, the Committee sent a new and different inquiry to Treasury for records responsive to a FOIA request regarding DOJ's decision not to criminally prosecute HSBC for money laundering and violations of U.S. sanctions law. As you know, in a landmark action, Treasury secured a civil settlement and DOJ secured a deferred prosecution agreement with HSBC that amounted to \$1.9 billion in assessed penalties for Bank Secrecy Act and sanctions violations, the largest such resolution in U.S. history at that time.

While your subpoena to Treasury reiterated the June 7, 2013 request, the Committee has in fact had access for over a year to the documents Treasury identified as responsive. In letters dated April 8 and May 6, 2014, and March 24, 2015, Treasury informed the Committee that those materials numbered several hundred pages and were available for in camera review. The Committee has not examined them to determine whether they satisfy its oversight interest.

As we have previously noted, DOJ made limited redactions to those documents in 2014 to protect then-pending law enforcement matters and prosecutorial deliberations. Treasury deferred to DOJ's judgment about the scope of the redactions. While Treasury has authority to pursue certain civil actions for money laundering offenses and U.S. sanctions violations, exclusive authority to prosecute criminal misconduct lies with DOJ. Accordingly, only DOJ can determine what materials can be released without compromising critical law enforcement activities.

Consistent with our commitment to cooperating with the Committee, Treasury recently asked DOJ to review its redactions and consider whether the passage of time has reduced law enforcement interests such that it would now be possible to remove some of the redactions. As a result, we expect that a substantial majority of the approximately 400 responsive pages will contain no redactions. Treasury is prepared to make the updated document set available for review by the Committee. If after that review, the Committee has questions about any remaining redactions, we would encourage the Committee address them to DOJ.

II. Requests Regarding the Debt Limit

As we detailed in our March 24, 2015 letter, Treasury has been similarly responsive to the Committee's inquiries concerning, among other things, whether Treasury could prioritize certain payments in the event that Congress failed to raise the debt ceiling, while also being transparent about the risks associated with prioritization. Your initial letter to Treasury, dated December 6, 2013, contained three questions about debt limit contingency planning and the operations of the Fedwire Securities Service, which enables participants to hold, maintain, and transfer U.S. Treasury-issued securities. Treasury answered each of these questions in writing on April 8, 2014.

Treasury also responded to the various requests for documents contained in your December 6, 2013 letter on behalf of itself and the New York Fed, which received a similar letter from the Committee on November 6, 2013. The Committee has been seeking materials related to services that the New York Fed performs for Treasury as its fiscal agent pursuant to an Act of Congress. Accordingly, we have advised the New York Fed that Treasury will continue to address the Committee's requests to Treasury and the New York Fed for information.

Your recent subpoenas to Treasury and the New York Fed substantially repeat the document requests contained in your November 6 and December 6, 2013 letters. First, you request records associated with meetings of the Federal Open Market Committee since April 2011 concerning contingencies in the event the debt limit was not raised or related plans regarding the processing of federal payments. As we stated in our letters dated April 8 and May 7, 2014, we are not aware of Treasury staff having provided briefings to, or attended meetings of, the FOMC on these matters.

Second, you request certain documents regarding Secretary Lew's testimony before the Senate Finance Committee on October 10, 2013. In response, on April 8, 2014, Treasury provided you with communications by the New York Fed that are responsive to that request. We further noted that we had not identified any consultation between Treasury and the New York Fed regarding the preparation of the Secretary's testimony.

Finally, you request documents relating to making payments in the event that Congress failed to raise the nation's borrowing limit. On June 2 and June 5, 2014, Treasury provided over 1,300 pages of documents for the Committee's in camera review. These materials evidence that, assuming Treasury had sufficient cash on hand, the New York Fed's systems would be technologically capable of continuing to make principal and interest payments while Treasury was not making other kinds of payments, although this approach would be entirely experimental and create unacceptable risk to both domestic and global financial markets. The Committee subsequently sent Treasury a four-page letter describing certain of these documents as painstakingly and exhaustively detailed and summarizing the information the Committee had obtained. Eight months then elapsed without the Committee corresponding with Treasury on this issue.

Prior to the issuance of the subpoenas, Treasury invited the Committee to identify any questions that remained unresolved and committed to working with Committee staff to address them cooperatively. While that offer has not been accepted or acknowledged, we continue to welcome the opportunity for our staffs to discuss the particulars of the Committee's oversight interest, and we will contact your staff with the aim of scheduling a time.

In the meantime, we understand that the Committee is interested in obtaining hardcopies of the documents that Treasury previously provided in camera. In response, we are prepared to produce them, but we again emphasize that the documents contain potentially market sensitive and operationally sensitive material, the disclosure of which could result in serious harm. Consequently, we urge the Committee to keep this material confidential. Treasury is currently reviewing the documents in order to redact information that may be sensitive from a security perspective, such as access codes and bank routing and account numbers.

As part of our continued effort to address the Committee's oversight interests, Treasury has also identified an additional set of documents related in part to the New York Fed's technological capabilities that we will include with the hardcopy production. We similarly urge the Committee to keep these materials confidential.

While Treasury remains intent on working with the Committee, we note that the Committee's correspondence on this matter alludes to a hypothetical situation that can and should remain unthinkable—that Congress would, for the first time in history, fail to raise the nation's borrowing authority in order to meet our country's commitments. That the Committee is raising this possibility is deeply troubling. Any decision by the federal government to pay bondholders instead of others would result in default, such as on our commitments to senior citizens, veterans, and members of the military. As you know, in February of 2014, Congress acted to protect the full faith and credit of the United States by temporarily extending the debt limit. However, Treasury is again at the debt limit. Only Congress can address this matter, and we encourage action without controversy or brinkmanship to increase the debt limit as soon as possible.

III. Conclusion

We look forward to continuing Treasury's history of cooperation with the Committee. Please contact Sandra Salstrom, Office of Legislative Affairs, at (202) 622-1900, if you or your staff have any questions regarding this letter.

Sincerely,

A handwritten signature in cursive script that reads "Randall DeValk".

Randall DeValk
Acting Assistant Secretary for Legislative Affairs

Appendix 37

Letter from Sean Duffy, Chairman, Subcommittee on Oversight and Investigations to Jack Lew, Secretary, U.S. Department of the Treasury (August 27, 2015)

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

August 27, 2015

The Honorable Jacob Lew
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20500

Dear Secretary Lew:

On May 11, 2015, the Committee subpoenaed records within the possession, custody, or control of the U.S. Department of the Treasury (Treasury) and required that you produce those records by May 25, 2015. In the Treasury's response of May 26, 2015, Randall DeValk, Acting Assistant Secretary for Legislative Affairs, stated that "we are prepared to produce" to the Committee the records pertaining to the debt limit.¹ To date, no subpoenaed records have been produced. Please immediately provide all subpoenaed records.

Additionally, please make the following employees available for transcribed interviews with Committee staff to testify regarding the Treasury's noncompliance with the Committee's subpoena and other records requests:

1. Randall DeValk, Acting Assistant Secretary for Legislative Affairs
2. Glen Sears, Deputy Assistant Secretary for Legislative Affairs
3. Pat Maloney, Senior Advisor, Office of Legislative Affairs

By not later than September 3, 2015, please confirm that you will make the requested employees available for transcribed interviews.

Please have your staff contact Joe Gammello of the Committee staff at (202) 225-7502 if you have any questions regarding this request.

Sincerely,



SEAN DUFFY
Chairman
Subcommittee on Oversight and Investigations

cc: The Hon. Al Green, Ranking Member

¹ See Letter from Randall DeValk, Acting Assistant Secretary for Legislative Affairs, U.S. Department of the Treasury, to the Hon. Sean Duffy, Chairman, Subcmte. On Oversight and Investigations, H. Comm. on Fin. Serv., May 26, 2015.

Appendix 38

Letter from Sean Duffy, Chairman, Subcommittee on Oversight and Investigations
to William Dudley, President, Federal Reserve Bank of New York (August 27, 2015)

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

August 27, 2015

William C. Dudley
President
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045

Dear President Dudley:

On May 11, 2015, the Committee on Financial Services subpoenaed records within the possession, custody, or control of the Federal Reserve Bank of New York (Bank) and required that you produce those records by May 25, 2015. To date, no subpoenaed records have been produced.¹ Please immediately provide the subpoenaed records.

Additionally, please make the following employees available for transcribed interviews with Committee staff to testify regarding the Bank's noncompliance with the Committee's subpoena:

1. Michael Nelson, Counsel and Senior Vice President
2. Thomas Baxter, Jr., General Counsel and Executive Vice President

By not later than September 3, 2015, please confirm that you will make the requested employees available for transcribed interviews.

Please have your staff contact Joe Gammello of the Committee staff at (202) 225-7502 if you have any questions regarding this request.

Sincerely,



SEAN DUFFY

Chairman

Subcommittee on Oversight and Investigations

cc: The Hon. Al Green, Ranking Member

¹ The Committee rejects the Bank's sole justification for obstructing the Committee's information requests (i.e., that it is under a "legal duty to receive authorization from [its] fiscal principal, Treasury, before producing the documents"). Letter from Thomas C. Baxter, General Counsel, Federal Reserve Bank of New York, to the Hon. Jeb Hensarling, Chairman, H. Comm. On Fin. Serv. (May 26, 2015). Congress has long held, and the Committee maintains, that information cannot be withheld from a congressional committee simply because the information would be subject to a common-law privilege such as the "principal-agent" relationship relied upon here. See generally Todd Garvey et. al., Cong. Research Serv. RL30240, Congressional Oversight Manual (2014); see also, e.g., *In the Matter of Provident Life and Accident Co.*, E.D. Tenn., S.D., CIV-1-90-219, June 13, 1990 (noting that the court's earlier ruling on an attorney-client privilege claim was "not of constitutional dimensions, and is certainly not binding on the Congress of the United States."); *Jurney v. MacCracken*, 294 U.S. 125, 146 (1935) (noting a Senate committee's rejection of an assertion of attorney-client privilege).

Appendix 39

Letter from Anne Wall, Assistant Secretary for Legislative Affairs, U.S. Department of the Treasury to Sean Duffy, Chairman, Subcommittee on Oversight and Investigations (September 3, 2015)



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

September 3, 2015

The Honorable Sean Duffy
U.S. House of Representatives
Washington, DC 20515

Dear Representative Duffy:

I write in response to your August 27 letters to the Department of the Treasury and its statutory fiscal agent, the Federal Reserve Bank of New York, regarding the debt limit. Since the Committee's initial inquiry, Treasury has sent multiple letters responding to the Committee's questions, and has made over 1,300 pages of material available for the Committee's review. We believe we have addressed the Committee's questions regarding government operations in the unthinkable event that Congress does not raise the debt limit. Nevertheless, we remain committed to working cooperatively with the Committee to provide the information it needs. To that end, we will provide the documents previously produced in camera and are also producing an additional set of documents, which are consistent with information previously provided. We will arrange hand-delivery of this sensitive and confidential production to your staff tomorrow morning. In addition, we remain willing to continue our dialogue regarding any questions concerning the debt limit that the Committee believes still exist.

The Committee's requests to Treasury and the New York Fed involve three categories of documents related to the debt limit. Over the course of our engagement with the Committee, Treasury, on behalf of itself and the New York Fed, has worked diligently to provide documents and information responsive to each of these categories. We summarize those categories below.

First, the Committee requested records associated with meetings of the Federal Open Market Committee since April 2011 relating to contingencies in the event the debt limit was not raised or related plans regarding the processing of federal payments. As we have previously noted, we are not aware of Treasury staff having provided briefings to, or attended meetings of, the FOMC on these matters.

Second, the Committee requested certain documents regarding Secretary Lew's October 10, 2013 testimony before the Senate Finance Committee. We provided the Committee with communications that are responsive to that request on April 8, 2014 and noted that we had not identified any consultation between Treasury and the New York Fed regarding the preparation of the Secretary's testimony.

Third, the Committee requested documents related to making payments in the event of Congress's failure to raise the debt limit. In response, Treasury made over 1,300 pages of documents available to the Committee for in camera review in June 2014. As we have

explained, and as indicated in these documents, if the debt limit were not raised, and assuming Treasury had sufficient cash on hand, the Fedwire Securities System would be technologically capable of continuing to make principal and interest payments while Treasury was not making other kinds of payments. We note, however, that this approach would be entirely experimental and create unacceptable risk to both domestic and global financial markets. Moreover, any decision by the federal government to pay bondholders instead of honoring our country's other commitments—such as those to senior citizens, veterans, and members of the military—would result in default.

We have also offered to provide the Committee with the June 2014 in camera production, as well as an additional set of documents, which are consistent with information previously provided. Both sets of documents will be hand-delivered to your staff tomorrow morning. As we noted previously, disclosure of these documents could cause serious harm. These documents contain confidential supervisory information as well as other potentially market and operationally sensitive information, which, if disclosed, could result in significant monetary or productivity loss. We urge the Committee to keep these materials confidential.

Many of the Committee's past letters on this matter allude to an unprecedented and avoidable situation in which Congress would fail to raise the nation's borrowing authority in order to meet our country's commitments. As you know, we reached the debt limit nearly six months ago, and Treasury has had to employ extraordinary measures to continue to finance the government on a temporary basis. As Secretary Lew has stated in recent letters to Congressional Leaders, only Congress can extend the nation's borrowing authority to pay expenditures Congress has already authorized. We respectfully urge Congress to protect the full faith and credit of the United States by raising the debt limit as soon as possible without controversy or brinkmanship.

We remain firmly committed to our ongoing collaboration with the Committee on this matter and are prepared to work with your staff to address any questions not addressed by our productions and letters. Please contact the Office of Legislative Affairs at (202) 622-1900 if you or your staff have any questions regarding this letter.

Sincerely,



Anne Wall
Assistant Secretary for Legislative Affairs

cc:

The Honorable Jeb Hensarling
The Honorable Maxine Waters

Appendix 40

Letter from William Dudley, President, Federal Reserve Bank of New York to Sean Duffy, Chairman, Subcommittee on Oversight and Investigations (September 3, 2015)

FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

WILLIAM C. DUDLEY
PRESIDENT

September 3, 2015

VIA FEDERAL EXPRESS AND ELECTRONIC MAIL

The Honorable Sean Duffy
Chairman
United States House of Representatives Committee on Financial Services
Subcommittee on Oversight and Investigations
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Duffy:

I write in response to your letter dated August 27, 2015.

With respect to your request that we immediately provide the records that are subject to the May 11, 2015 subpoena issued by the Committee to the New York Fed, Treasury has advised us that today Treasury will be delivering a response to the Subpoena on behalf of both the Treasury (the fiscal principal) and the New York Fed (the fiscal agent).

With respect to the other requested actions, these might be unnecessary given the production that Treasury intends to make. In the event that, after reviewing the Treasury production, you believe further actions are needed, please do not hesitate to contact me.

Very truly yours,

William C. Dudley

Appendix 41

Letter from Sean Duffy, Chairman, Subcommittee on Oversight and Investigations to Jack Lew, Secretary, U.S. Department of the Treasury (September 14, 2015)

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

September 14, 2015

The Honorable Jacob Lew
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20500

Dear Secretary Lew:

On May 11, 2015, the Committee subpoenaed records within the possession, custody, or control of the U.S. Department of the Treasury (Treasury) and required that you produce those records by May 25, 2015. Due to Treasury's failure to produce even a single subpoenaed record to the Committee in more than three months, I sent you a letter on August 27, 2015, asking you to timely comply with the Committee's subpoena.¹ In Treasury's response letter of September 3, 2015, Anne Wall, Assistant Secretary for Legislative Affairs, indicated that Treasury would be producing records to the Committee on September 4, 2015.² However, to date, Treasury has not produced any of the subpoenaed records to the Committee in a reasonably usable form, let alone in the manner required by the subpoena instructions.³ Please fully and promptly comply with the Committee's subpoena by not later than September 18, 2015.

If you have any questions regarding this matter, please have your staff contact Joe Gammello of the Committee staff at (202) 225-7502.

Sincerely,



SEAN DUFFY
Chairman
Subcommittee on Oversight and Investigations

cc: The Hon. Al Green, Ranking Member

¹ See Letter from the Hon. Sean Duffy, Chairman, Subcomm. On Oversight and Investigations, H. Comm. on Fin. Serv., to the Hon. Jacob Lew, Secretary, U.S. Department of the Treasury (August 27, 2015).

² See Letter from the Hon. Anne Wall, Assistant Secretary for Legislative Affairs, U.S. Department of the Treasury, to the Hon. Sean Duffy, Chairman, Subcomm. on Oversight and Investigations, H. Comm. on Fin. Serv. (September 3, 2015).

³ Despite being compelled by the Committee's May 11th subpoena to produce all of the requested records, Treasury has failed to produce even a single record to the Committee to date pertaining to the Department of Justice's decisions in matters involving large financial institutions. On September 4, 2015, Treasury provided the Committee with a secured, read-only PDF containing records pertaining to the debt limit. However, because the Committee cannot print, efficiently examine via the Clearwell eDiscovery platform, or otherwise use the records for any purpose besides reading on a computer screen, Treasury has yet to produce any of the subpoenaed records to the Committee in a reasonably usable form, let alone in the manner required by the subpoena. Moreover, Treasury has not certified that the records viewable on the secured PDF delivered to the Committee on September 4th constitute all of the subpoenaed records pertaining to the debt limit that Treasury has located after conducting a search reasonably calculated to locate all of the responsive records.

Appendix 42

Letter from Sean Duffy, Chairman, Subcommittee on Oversight and Investigations to William Dudley, President, Federal Reserve Bank of New York (September 17, 2015)

September 17, 2015

William C. Dudley
President
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045

Dear President Dudley:

On May 11, 2015, the Committee on Financial Services subpoenaed records within the possession, custody, or control of the Federal Reserve Bank of New York (Bank) and required that you produce those records by May 25, 2015. Due to the Bank's failure to produce even a single subpoenaed record to the Committee in more than three months, I sent you a letter on August 27, 2015, asking you to timely comply with the Committee's subpoena and to make two Bank employees¹ available for transcribed interviews with Committee staff to testify regarding the Bank's noncompliance with the Committee's subpoena.² In your response letter of September 3, 2015, you stated that "Treasury has advised us that today Treasury will be delivering a response to the Subpoena on behalf of both the Treasury (the fiscal principal) and the New York Fed (the fiscal agent)" and that "[w]ith respect to the other requested actions [i.e., transcribed interviews of Bank employees], these might be unnecessary given the production that Treasury intends to make."³ However, to date, neither Treasury nor the Bank⁴ has produced any of the subpoenaed records to the Committee in a reasonably usable form, let alone in the manner required by the subpoena instructions.⁵

¹ The Committee requested transcribed interviews with Michael Nelson, Counsel and Senior Vice President, and Thomas Baxter, Jr., General Counsel and Executive Vice President.

² See Letter from the Hon. Sean Duffy, Chairman, Subcomm. on Oversight and Investigations, H. Comm. on Fin. Serv., to the Hon. William C. Dudley, President, Federal Reserve Bank of New York (August 27, 2015).

³ See Letter from the Hon. William C. Dudley, President, Federal Reserve Bank of New York, to the Hon. Sean Duffy, Chairman, Subcomm. on Oversight and Investigations, H. Comm. on Fin. Serv. (September 3, 2015).

⁴ The Committee rejects the Bank's sole justification for failing to comply with the Committee's subpoena (i.e., that it is under a "legal duty to receive authorization from [its] fiscal principal, Treasury, before producing the documents"). Letter from Thomas C. Baxter, General Counsel, Federal Reserve Bank of New York, to the Hon. Jeb Hensarling, Chairman, H. Comm. On Fin. Serv. (May 26, 2015). Congress has long held, and the Committee maintains, that information cannot be withheld from a congressional committee simply because the information would be subject to a common-law privilege such as the "principal-agent" relationship relied upon here. See generally Todd Garvey et. al., Cong. Research Serv. RL30240, Congressional Oversight Manual (2014); see also, e.g., *In the Matter of Provident Life and Accident Co.*, E.D. Tenn., S.D., CIV-1-90-219, June 13, 1990 (noting that the court's earlier ruling on an attorney-client privilege claim was "not of constitutional dimensions, and is certainly not binding on the Congress of the United States."); *Jurney v. MacCracken*, 294 U.S. 125, 146 (1935) (noting a Senate committee's rejection of an assertion of attorney-client privilege).

⁵ Despite being compelled by the Committee's May 11th subpoena to produce the requested records, the Bank has failed to produce even a single record to the Committee to date. On September 4, 2015,

The Hon. William C. Dudley
September 17, 2015
Page 2 of 2

Accordingly, please indicate by not later than September 24, 2015, whether you intend to make the previously requested Bank employees available for transcribed interviews with Committee staff concerning the Bank's failure to comply with the Committee's subpoena.⁶

If you have any questions regarding this request, please have your staff contact Joe Gammello of the Committee staff at (202) 225-7502.

Sincerely,



SEAN DUFFY
Chairman
Subcommittee on Oversight and Investigations

cc: The Hon. Al Green, Ranking Member

Treasury provided the Committee with a secured, read-only PDF containing records pertaining to the debt limit. However, because the Committee cannot print, efficiently examine via the Clearwell eDiscovery platform, or otherwise use the records for any purpose besides reading on a computer screen, Treasury has yet to produce any of the subpoenaed records to the Committee in a reasonably usable form, let alone in the manner required by the subpoena instructions. Moreover, neither Treasury nor the Bank has certified that the records viewable on the secured PDF delivered to the Committee on September 4th constitute all of the subpoenaed records located by either agency after conducting a search reasonably calculated to locate all of the responsive records.

⁶ As an alternative to the Bank making the requested employees available for transcribed interviews with Committee staff, the Committee will accept a Bank representative's written certification that the Bank conducted a search reasonably calculated to locate all responsive records to the Committee's subpoena and that the Bank produced to the Committee all known responsive records in its or any agent's possession, custody, or control.

Appendix 43

Letter from William Dudley, President, Federal Reserve Bank of New York to Sean Duffy, Chairman, Subcommittee on Oversight and Investigations (September 24, 2015)

FEDERAL RESERVE BANK *of* NEW YORK

33 LIBERTY STREET, NEW YORK, NY 10045-0001

WILLIAM C. DUDLEY
PRESIDENT

September 24, 2015

VIA FEDERAL EXPRESS AND ELECTRONIC MAIL

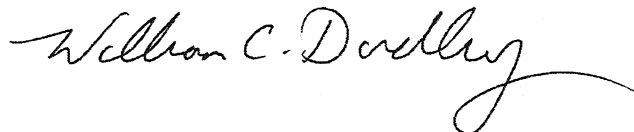
The Honorable Sean Duffy
Chairman
United States House of Representatives Committee on Financial Services
Subcommittee on Oversight and Investigations
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Duffy:

I write in response to your letter dated September 17, 2015. With respect to your statements regarding the Federal Reserve Bank of New York's ("New York Fed") compliance with the May 11, 2015 subpoena issued by the Committee on Financial Services ("Committee"), we understand that the United States Department of the Treasury ("Treasury") has already produced over 2000 pages of responsive documents to the Committee on behalf of both the Treasury (the fiscal principal) and the New York Fed (the fiscal agent).

We further understand that the Treasury intends to produce, no later than Monday, September 28, 2015, all of the documents that the New York Fed determined to be responsive to the Subpoena. We also understand that the Treasury is working with the Committee to address the Committee's technical concerns with the form of the productions. In view of these developments, your request that I direct Thomas Baxter, General Counsel, and Michael Nelson, Assistant General Counsel, to be available to your staff to answer "on the record" questions about subpoena compliance appears to be moot. With that said, I am prepared to give that direction if you conclude that "on the record" questions to Federal Reserve counsel continue to be necessary.

Very truly yours,



cc: The Hon. Al Green, Ranking Member

Appendix 44

Letter from Anne Wall, Assistant Secretary for Legislative Affairs, U.S. Department of the Treasury to Sean Duffy, Chairman, Subcommittee on Oversight and Investigations (September 29, 2015)



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

September 29, 2015

The Honorable Sean Duffy
U.S. House of Representatives
Washington, DC 20515

Dear Representative Duffy:

I write on behalf of the Department of the Treasury and its statutory fiscal agent, the Federal Reserve Bank of New York in further response to the Committee's questions related to our nation's ability to make payments in the catastrophic event that Congress fails to raise the debt limit. Treasury has previously produced 2,250 pages of materials responsive to the Committee's requests. We remain committed to working cooperatively with the Committee to provide the information it needs. To that end, we are producing over 1,600 additional pages. With this production, we will have produced all documents identified by the New York Fed as responsive to your requests.

For ease of review, we are reorganizing and reproducing the previously provided materials plus the new materials on one secure, read-only searchable CD. To avoid confusion, we have started a new bates range. The documents on this disc contain confidential supervisory information as well as other potentially market and operationally sensitive information. For example, the documents contain nonpublic information about how the New York Fed operates the Fedwire Securities Service and the Fedwire Funds Service. Risks to these systems have the potential to, among other things, jeopardize the proper functioning of the Treasury market, which averages approximately \$500 billion a day and is critical to the continued operation of the financial system. Disclosure of these documents, even if inadvertent, could result in serious harm. In addition, in providing these documents to the Committee, the New York Fed is not waiving any privileges that may apply.

We will work with your staff to arrange a time for hand-delivery of this sensitive and confidential production. We remain committed to our ongoing collaboration with the Committee on these matters. Please contact the Office of Legislative Affairs at (202) 622-1900 if you or your staff have any questions.

Sincerely,

Anne Wall
Assistant Secretary for Legislative Affairs

Appendix 45

Letter from Jeb Hensarling, Chairman, Committee on Financial Services to William Dudley, President, Federal Reserve Bank of New York (November 6, 2013)

November 6, 2013

BY FIRST CLASS AND ELECTRONIC MAIL

William C. Dudley
President, Federal Reserve Bank of New York
33 Liberty Street
New York, New York 10045

Dear President Dudley:

As you know, legislation to increase the authorized borrowing level for the U.S. government through February 2014 was signed into law on October 16, 2013. While the debate over the debt ceiling reflected fundamental disagreements about our nation's fiscal priorities, there was general consensus that a default on U.S. sovereign debt was potentially catastrophic and must be avoided.

This public policy imperative heightens the importance of congressional oversight to ensure that the Department of the Treasury ("Treasury Department") and/or the Federal Reserve Bank of New York ("New York Fed") have a contingency plan in place for averting a default on the debt. I believe that such a contingency plan was being formulated during the summer of 2011 during the "fiscal cliff" negotiations as reported by the *Wall Street Journal*:

During the last big debt-ceiling standoff, in the summer of 2011, the Treasury Department was in advanced internal discussions about prioritizing interest payments on government debt ahead of other bills, but the decisions didn't have to be activated because Congress raised the debt ceiling, according to a person familiar with the planning.¹

The testimony of Treasury Secretary Lew before the Senate Committee on Finance on October 10, 2013, however, calls into question the Treasury Department's ability to execute a contingency plan. Secretary Lew testified:

We [the Department] write roughly 80 million checks a month. The systems are automated to pay because for 224 years, the policy of Congress and every president has been we pay our bills. You cannot go into those systems and easily make them pay some things and not other things. They weren't designed that way because it was never the policy of this government to be in the position that we would have to be in if we couldn't pay all our bills.²

¹ Deborah Solomon & Dan Strumpf, *Top Bankers Warn on U.S. Debt Proposal*, Wall St. J., October 7, 2013.

² *The Debt Limit: Hearing Before the S. Comm. on Finance*, 113th Cong. ____ (2013) (statement of Hon. Jacob Lew, Secretary, Dep't of Treas.), available at <http://www.finance.senate.gov/hearings>.

It is difficult to understand how the Treasury Department was developing a contingency plan to prioritize payments on sovereign debt as reported by the *Wall Street Journal* if payment systems operated by or on behalf of the Treasury Department cannot be programmed to make that happen.

In light of these conflicting statements, Financial Services Committee staff contacted the New York Fed, which operates the Fedwire securities payment system by which the Department makes payments on Treasury bonds ("Fedwire Securities System"), to learn more about the Fedwire Securities System. In particular, Committee staff sought to learn whether the technology of the platform would allow the Department to make some payments and not others. I was disappointed to learn that your staff was unhelpful in this regard, citing an alleged confidential relationship between the Department and the New York Fed that prevents you from cooperating with legitimate congressional oversight.

As you are aware, the Financial Services Committee has broad jurisdiction over matters related to this inquiry, such as what effect a default on sovereign debt would have on capital markets. Bare assertions of alleged confidential relationships are no substitute for compliance with Congress's oversight efforts. Therefore, so that this committee may better understand the federal government's present ability to avert a default on its sovereign debt, please transmit to the Committee, not later than November 27, 2013, responses to the following questions and unredacted copies of the records sought below.

Questions


1. Would the New York Fed, or any other governmental department, agency, or instrumentality involved with the operation of the Fedwire Securities System, be capable of identifying any payments that are not timely made utilizing the Fedwire Securities System?
2. If the Treasury Department instructed the New York Fed to make certain payments over the Fedwire Securities System while directing that it forbear from making certain other payments, or if the Treasury Department gave such instructions directly to the Fedwire Securities System, could the Fedwire Securities System operate consistent with such instructions? If so, please assess the feasibility of accommodating that instruction; if not, please assess the feasibility of programming the Fedwire Securities System so that it could accommodate such an instruction.
3. Has the New York Fed, in its role as the operator of the Fedwire Securities System, ever engaged in any planning (whether in coordination with or independent from the Treasury Department) to consider how or whether to continue making principal and interest payments on Treasury debt if the nation's borrowing limit is not raised?

Records Requested:³

1. Communications between the New York Fed and the Treasury Department and any other communications to which the New York Fed is a party relating to the October 10, 2013, testimony of Secretary Lew before the Senate Finance Committee, as well as the names and titles of staff who were a party to any such communications and any other records related to such communications.
2. Documents, whether in final or draft form, and communications relating to efforts by the New York Fed (whether in coordination with or independent of the Treasury Department) relating to any plan for whether or how to continue making principal and interest payments on Treasury debt if the nation's borrowing limit is not raised.
3. Communications between the New York Fed and the Treasury Department, and any other communications to which the New York Fed is a party, relating to any plan for whether or how to continue making principal and interest payments on Treasury debt if the nation's borrowing limit is not raised.

If you have questions concerning this request, please contact J.W. Verret of the Committee staff at (202) 225-7502.

Sincerely,


JEB HENSARLING
Chairman

cc: The Honorable Maxine Waters, Ranking Member

³ The term "records" means any written, recorded, or graphic matter of any nature whatsoever, regardless of how recorded or preserved, and whether original or copy.

Appendix 46

Letter from Jeb Hensarling, Chairman, Committee on Financial Services and Patrick McHenry, Chairman, Subcommittee on Oversight and Investigations to William Dudley, President, Federal Reserve Bank of New York (February 12, 2014)

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

February 12, 2014

William C. Dudley
President, Federal Reserve Bank of New York
33 Liberty Street
New York, New York 10045

Dear President Dudley:


This letter responds to the Federal Reserve Bank of New York's letter dated December 5, 2013, concerning the Committee on Financial Service's November 6, 2013, request that the New York Fed answer certain questions and produce records related to the ability of the Department of the Treasury and/or the Federal Reserve System to prioritize payments of government debt in the event the debt ceiling was not raised. The New York Fed refused to produce the requested records without consent from the Treasury Department because, it claimed, the records related to "functions performed by the New York Fed as fiscal agent of the Treasury, in accordance with Section 15 of the Federal Reserve Act."

The "fiscal-agent" relationship relied upon by the New York Fed is not a valid basis for withholding documents requested by Congress in the exercise of its constitutionally grounded oversight authority. The Committee recognizes claims of common law privilege, such as the "fiscal-agent" relationship relied upon here, in its discretion rather than as a matter of law.¹ In fact, because the President has not invoked "presidential communications privilege" (sometimes referred to as "executive privilege") with respect to the records, the New York Fed has not stated a basis on which it might conceivably withhold the records.

The Committee respectfully renews its demand that the New York Fed produce the requested records without further delay. If you have questions concerning this request, please contact J.W. Verret of the Committee staff at (202) 225-7502.

Sincerely,


JEB HENSARLING
Chairman


PATRICK McHENRY
Chairman
Subcommittee on Oversight
and Investigations

cc: The Honorable Maxine Waters, Ranking Member
The Honorable Al Green, Ranking Member, Subcommittee on Oversight and
Investigations

¹ See, e.g., *Jurney v. MacCracken*, 294 U.S. 125, 316 (1935) (noting Senate committee's rejection of attorney-client privilege).

Appendix 47

Letter from Jeb Hensarling, Chairman, Committee on Financial Services and Patrick McHenry, Chairman, Subcommittee on Oversight and Investigations to William Dudley, President, Federal Reserve Bank of New York (March 25, 2014)

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

March 25, 2014

William C. Dudley
President
Federal Reserve Bank of New York
33 Liberty Street
New York, New York 10045

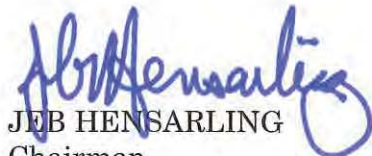
Dear President Dudley:

As you know, the Committee on Financial Services is investigating whether the United States can continue to make payments on government debt in the event the statutory debt limit is not raised when it has been reached. The Federal Reserve Bank of New York ("New York Fed") has failed to provide records and responses to questions as requested by the Committee in a letter dated November 6, 2013 from Chairman Hensarling to you.


By not later than April 8, 2014, please provide the records and written responses that the Committee has requested. Any failure by the New York Fed to produce the requested materials would frustrate the Committee's legitimate oversight efforts and deprive Congress of information necessary to the exercise of the legislative power. Accordingly, if the New York Fed does not comply with this request, the Committee will authorize and issue a subpoena *duces tecum* to compel the production of the requested records. In addition, the Committee will authorize and issue a subpoena *ad testificandum* to compel the testimony of all appropriate New York Fed witnesses concerning the requested records, the questions posed by the Committee's November 6th letter, and any other matters deemed appropriate and within the Committee's jurisdiction.

If you have questions regarding this request, please contact J.W. Verret or Joseph Clark of Committee staff at (202) 225-7502.

Sincerely,



JEB HENSARLING
Chairman



PATRICK McHENRY
Chairman
Subcommittee on Oversight
and Investigations

cc: The Honorable Maxine Waters,
Ranking Member

cc: The Honorable Al Green
Ranking Member
Subcommittee on Oversight and Investigations

Appendix 48

Letter from Jeb Hensarling, Chairman, Committee on Financial Services to William Dudley, President, Federal Reserve Bank of New York (March 10, 2015)

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

March 10, 2015

William C. Dudley
President
Federal Reserve Bank of New York
33 Liberty Street
New York, New York 10045

Dear President Dudley:

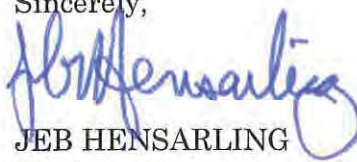
The Federal Reserve Bank of New York (Bank) has not complied with the following information requests from the Committee on Financial Services (Committee):

- Letter from Chairman Hensarling dated November 6, 2013.

Your failure to comply with this request constitutes the improper withholding of information that will aid the Committee's examination of the operation and effectiveness of laws or programs within the Committee's jurisdiction. To allow the Committee to fulfill its oversight responsibilities under the House Rules,¹ please provide the Committee with unredacted copies of all previously requested records by March 24, 2015.² If you do not fully comply with this request by the specified date, I will authorize and issue a subpoena *duces tecum* to compel the production of the requested information pursuant to Committee Rule 3.

If you have any questions regarding this request, please contact Joe Gammello of the Committee staff at (202) 225-7502.

Sincerely,



JEB HENSARLING
Chairman
Committee on Financial Services

cc: The Hon. Maxine Waters, Ranking Member

¹ Rule X, Rules of the House of Representatives, 114th Cong.

² The Committee will not consider the Bank's production as complete until a representative of the Bank certifies in writing that the Bank conducted a search reasonably calculated to locate all responsive records and that the Bank produced to the Committee all known responsive records in its or any agent's custody or control. In addition, the Bank's obligation to produce records is continuing in nature; if, after tendering the written certification required herein, the Bank becomes aware of any responsive record in its or any agent's custody or control, the record should be promptly produced.