

October 7, 1999

**Federal Reserve Bank of New York
STANDBY FINANCING FACILITY**

Term Sheet for Competitive Bidding by Primary Dealers for the Purchase of Options on Overnight Repurchase Transactions from the FRBNY

1. Auctions of three sets of options on overnight repo. The FRBNY will auction to primary dealers three separate sets or "strips" of five options on one-business-day repurchase agreements (also referred to as overnight repurchase agreements, below) for eligible collateral. Each of the three strips will consist of options on overnight repurchase agreements for a set of five consecutive business days. The first will consist of December 23, 24, 27, 28, and 29 (the "Dec. 23 Strip"); the second of December 30, 31, January 3, 4 and 5 (the "Dec. 30 Strip"); and the third of January 6, 7, 10, 11, 12 (the "Jan. 6 Strip"). The holder of a strip will be able to exercise overnight repurchase agreements, up to the total amount the holder was awarded at auctions for that strip, on any or all of the days covered by the strip. Holders of a strip may elect to exercise all or part of the strip as a term repo, covering two, three, four, or five business days, by pre-announcing the exercise of subsequent days.
2. Dutch auction. Auction pricing will be "Dutch style," meaning that all winning bidders will pay the lowest accepted price.
3. Bidding increments. Bidding will be in terms of dollar value, in increments of \$50 million, rather than in number of contracts. Pricing is explained in Point 9.
4. Exercise time and strike price. Notice of exercise must be given before 10:00 a.m. on an individual option exercise date. The "strike price" for the options will be 150 basis points above the Federal Open Market Committee's (FOMC's) target Federal funds rate as of 10:00 a.m. on the day of exercise.
5. Special feature of Dec. 30 Strip. In addition to the 10:00 a.m. exercise deadline and strike price of 150 basis point above the target Federal funds rate, any and all of the options contained in the Dec. 30 Strip also can be exercised after 10:00 a.m. and prior to 11:30 a.m. at a strike price of 250 basis points above the FOMC's target Federal funds rate as of 11:30 a.m. on the day of exercise.
6. Auction dates. The FRBNY will hold at least five weekly auctions of the three strips. The first auction will be held at 2:30 p.m. on October 20, 1999. The subsequent four auctions will be held on successive Wednesdays through November 17, 1999.
At 2:30 p.m. each auction Wednesday, the FRBNY will send an announcement over TRAPS announcing the three auctions. Dealers will be given fifteen minutes to enter their bids via TRAPS. Announcements of auction results will be made over TRAPS.
7. Auction amounts. At the first auction on October 20, the FRBNY will auction \$8 billion notional amount for the Dec. 23 Strip, \$12 billion for the Dec. 30 Strip, and \$8 billion for the Jan. 6 Strip. At the second auction on October 27, the FRBNY will offer similar or larger amounts, depending on demand at the first auction. As long as demand is evident, the FRBNY will auction similar amounts at each of the three subsequent auctions but the FRBNY may raise or lower the amounts to be auctioned for each strip in its sole discretion; amounts to be auctioned will be announced on the Thursday prior to the auction date at approximately 4:00 p.m.
8. Number of bids per dealer. In each auction, each primary dealer may place no more than two bids for its own account and no more than two bids for each customer for each strip.
9. Minimum bid and bid increments. The minimum price bid (i.e. the bid for the option premium) will be 0.5 basis point (0.00005). Price bids can be expressed in increments of 0.00005. Bids accepted at the lowest accepted price may be reduced in amount by the FRBNY if necessary to keep the total accepted amount near the pre-announced auction amount but such cut backs will maintain the minimum increments of \$50 million.
On TRAPS (Fedline), 0.5 basis point is represented as 0.005.
10. Payment of premiums. Premiums shall be paid on the business day immediately following the date of an auction. All premiums must be paid via Fedwire before 5 p.m.
To calculate the auction premium owed after an auction, a dealer would multiply the lowest accepted price (premium) (announced by FRBNY over TRAPS (Fedline) at the conclusion of the auction) by 7 (for the total strip) and then divide by 360 and multiply that amount by the money amount awarded to that dealer. For example, if the lowest accepted premium (announced by FRBNY over TRAPS (Fedline) at the conclusion of the auction) were two basis points, and if a dealer were awarded \$500 million worth of options, the dealer would wire to FRBNY \$1,944.44 on the day following the auction ($.0002 \times 7 / 360 \times \$500,000,000$). The FRBNY will confirm the premium amount to be paid with primary dealers initially via telephone and subsequently via facsimile.



11. Settlement. If the options are exercised, the repo transactions will be settled with the exercising dealer, that is, the same dealer that was awarded the corresponding options. Primary dealers will settle repurchase transactions either at their designated tri-party custodian, using the FRBNY's tri-party settlement arrangements, or as a delivery-versus-payment (dvp) repo, using the FRBNY's dvp settlement conventions. The dealer will specify the settlement mechanism when it gives notice of exercise.

 12. Announcement of results. Following each auction, FRBNY will announce the volume of propositions submitted and accepted, the range of prices submitted, and the lowest accepted or stop-out rate (which will be the rate paid on all accepted propositions). On each day for which options can be exercised, FRBNY will announce the amount exercised shortly after the deadline for notice of exercise.
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