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Audit Report

United States: Department of the Treasury: Office of the Inspector General

Audit Report

OIG-13-030

Treasury Implemented the Mortgage Backed Securities Purchase Program Consistent With Its Authorities, But Needs to Improve Oversight of Financial Agents

January 3, 2013

Office of Inspector General

DEPARTMENT OF THE TREASURY

Contents

Abbreviations

FAA	financial agency agreement
Fannie Mae	Federal National Mortgage Association
Freddie Mac	Federal Home Loan Mortgage Corporation
FRB	Board of Governors of the Federal Reserve System
GSE	government-sponsored enterprise
HERA	Housing and Economic Recovery Act of 2008
HFA	Housing Finance Agency
JAMES	Joint Audit Management Enterprise System
LIBOR	London Interbank Offered Rate
MBS	mortgage backed securities
OAS	option adjusted spread
OIG	Office of Inspector General
repo	repurchase agreement
SEC	Securities and Exchange Commission
U.S.C.	United States Code

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January 3, 2013

Mary John Miller
Under Secretary for Domestic Finance

Richard Gregg
Fiscal Assistant Secretary

Section 1117 of the Housing and Economic Recovery Act of 2008 (HERA)[1] authorized the Secretary of the Treasury to purchase obligations and securities issued by the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Home Loan Banks.[2] The Department of the Treasury's (Treasury) authority to make these purchases ended on December 31, 2009. Section 1117 also authorized Treasury to sell or otherwise exercise any rights received in connection with these purchases, at any time.

The Agency Mortgage Backed Securities (MBS) Purchase Program is one of several programs that Treasury established under its HERA authorities.[3] Under the Agency MBS Purchase Program, in response to the financial crisis at the time, Treasury purchased and sold, acting through financial agents, MBS guaranteed by Fannie Mae and Freddie Mac (these securities are

[1] Pub.L. 110-289
[2] Fannie Mae, Freddie Mac, and the Federal Home Loan Banks are government-sponsored enterprises (GSE). The GSEs are corporations chartered by Congress. As originally conceived, the GSEs were chartered to: provide stability in the secondary market for residential mortgages, respond appropriately to the private capital market, provide ongoing assistance to the secondary mortgage market by increasing the liquidity of mortgage investments and improving the distribution of investment capital available, promote access to mortgage credit throughout the nation, and manage and liquidate federally-owned mortgage portfolios in an orderly manner.
[3] In addition to the Agency MBS Purchase Program, Treasury established the Housing Finance Agency (HFA) Initiative and entered into Senior Preferred Stock Purchase Agreements with Fannie Mae and Freddie Mac. We are conducting separate audits of both the HFA Initiative and the stock purchase program.

commonly referred to as "agency MBS"). In total, before its purchase authority expired, Treasury purchased $225 billion agency MBS, beginning in September 2008. As market conditions improved, Treasury began selling its agency MBS in March 2011. On March 19, 2012, Treasury reported that it sold its entire agency MBS portfolio, receiving $250 billion for it in total.

In July 2012, we issued an audit report related to Treasury's selection process of financial agents for this program. In that report, we found that Treasury did not fully document its process for selecting the financial agents to manage its portfolio for the program.[4,5]

This report presents the results of our audit of Treasury's Agency MBS Purchase Program. As part of our audit, we assessed (1) Treasury's execution of the Agency MBS Purchase Program and (2) Treasury's oversight of the financial agents it hired to execute the program on its behalf.[6] To accomplish our objectives, we reviewed relevant laws and regulations, program-related documents provided by Treasury officials, and investment-related documents obtained from the financial agents. We also interviewed Treasury officials and the financial agents' senior management and staff. Appendix 1 details our objectives, scope, and methodology; and appendix 2 provides more detailed background information about HERA and the Agency MBS Purchase Program.

In brief, we found that Treasury executed the Agency MBS Purchase Program consistent with its authorities under HERA. Treasury implemented the Agency MBS Purchase Program in an

[4] Congress gave Treasury authority to designate a variety of depository institutions as financial agents of the United States, and to require them to perform "all such reasonable duties as may be required." *See, e.g.,* 12 U.S.C. 90 (national banking associations); 12 U.S.C. 265 (insured banks).
[5] *Treasury's Financial Agent Selection Process for the Agency Mortgage Backed Securities Purchase Program Was Not Fully Documented* (OIG-12-061; issued July 31, 2012)
[6] In September 2008, Treasury hired State Street Bank and Trust Company (State Street) and the New York Branch of Barclays Bank PLC (Barclays) as asset managers of the MBS portfolios, and JPMorgan Chase Bank N.A. (JPMorgan Chase) as custodian for the Agency MBS Purchase Program. Treasury amended its agreements with State Street and JPMorgan Chase in late 2009 to include services for the HFA Initiative.

effort to stabilize the mortgage market at a time of unprecedented volatility and illiquidity as a result of the financial crisis.[7]

Treasury officials worked with its financial agents – State Street Bank and Trust Company (State Street) and the New York Branch of Barclays Bank PLC (Barclays) – to develop strategic parameters for their trading activities while maintaining ongoing communication with the financial agents' senior management and staff. Treasury officials monitored their daily transactions and performed site visits to the financial agents' trading floors. However, they did not document these activities well.

In addition, the financial agents were subject to requirements under their financial agency agreements (FAA) with Treasury when executing trades on behalf of Treasury. Section 6 of the FAA states that the financial agent shall safeguard and protect confidential information regarding Treasury's business, economic and policy plans, nonpublic financial and asset information, trade secrets, information subject to the Privacy Act of 1974,[8] personally identifiable information, and sensitive but unclassified information. Due to the frequent communications with Treasury officials over the phone, we believe that some form of physical barriers for the traders executing trades for Treasury should have been provided to meet the intent of the agreement. However, during our site visits, we noted that there were no physical barriers established to separate the traders.

The Agency MBS Purchase Program has ended, but we believe it is useful to make the following recommendations in the event Treasury needs to carry out a similar program going forward.

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[7] The crisis began in the summer of 2007 when mortgage defaults accelerated at an unprecedented rate due to the downturn of the housing boom. By September 2008, major financial institutions such as Countrywide Financial Corporation, Bear Stearns Companies, Inc., and IndyMac Bank failed, and Fannie Mae and Freddie Mac, the largest purchasers and guarantors of home loans in the mortgage market, became severely stressed.

[8] 5 U.S.C. § 552a. The law protects certain federal government records pertaining to individuals. In particular, the law covers systems of records that an agency maintains and retrieves by an individual's name or other personal identifier (e.g., social security number). In general, the law prohibits unauthorized disclosures of the records it protects.

We recommend that, if a similar situation arises in the future when Treasury would need the services of financial agents to trade securities on its behalf, Treasury should (1) document its monitoring activities over the financial agents and (2) assess the need for separate physical barriers to ensure the safeguarding and protection of confidential information.

In a written response, included as appendix 3 of this report, Treasury management accepted both of our recommendations. The Office of the Fiscal Assistant Secretary will need to record the specific planned corrective actions to the recommendations and estimated completion dates in the Joint Audit Management Enterprise System (JAMES), the Department's audit recommendation tracking system.

Results of Audit

Treasury's Monitoring Activities Were Not Well Documented

Treasury officials monitored the financial agents' execution of the Agency MBS Purchase Program, but they did not fully document their monitoring activities. Treasury officials communicated the program goals to the financial agents and worked with the financial agents to make sure the program's goals were achieved. In doing so, Treasury officials monitored the daily program operations of State Street and Barclays by receiving daily summaries of transactions and settlements from the traders. Financial agents' employees also made weekly calls to the Treasury officials to discuss program status and strategy, conducted quarterly reviews, and held conference calls at the request of Treasury officials. In addition, the financial agents delivered annual certifications to Treasury on certain matters specified in the FAA, including that the charges and expenses charged were accurate and attributable to services provided to Treasury.

Over a 30-month period, from September 2008 to March 2011, Treasury officials made three site visits to State Street and one site visit to Barclays.[9] Treasury officials did not document these site visits. According to a Treasury official, the purpose of the first two site visits to State Street and the visit to Barclays was to discuss investment strategies for security purchases. The site visit made in March 2011 to State Street assessed the ethical wall in preparation for winding down the agency MBS portfolio.[10]

Despite the frequent contacts and oversight of the financial agents, Treasury left little in the way of documentation to evidence their monitoring activities over the financial agents. For example, Treasury officials told us that they had held weekly calls with the traders at the financial agents and performed site visits to observe and discuss investment strategy. However, they could not provide documentation to support such activities.

Internal control standards of the federal government apply to Treasury programs and operations. Those standards provide that internal control and all transactions and other significant events need to be clearly documented, and the documentation be readily available for examination. The requirement for documentation should appear in management directives, administrative policies, or operating manuals in paper or electronic form. All documentation and records should be properly managed and maintained.[11]

[9] Treasury terminated its FAA with Barclays in December 2009 at the expiration of Treasury's authority to purchase agency MBS. At that time, the remainder of the Barclays' agency MBS portfolio was transferred to State Street.
[10] An ethical wall is a zone of non-communication established within an organization. This zone is established to help prevent conflicts of interest that might result in the inappropriate release of sensitive information. Ethical walls are designed to prevent the flow of material non-public information about a public company or its securities from employees who receive material non-public information in the course of their employment to other employees of the same company performing investment management activities. An example of an ethical wall in an investment organization is one where brokers are not allowed to talk to market researchers who may have information that is not available to the general public. Because market researchers may have confidential information that might influence a broker, regulatory requirements frequently state that those two groups must be prevented from communicating in any way.
[11] U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government*, November 1999.

Additionally, Treasury established its own documentation requirements in Treasury Directive Publication 80-05, *Records and Information Management Program,* which states that all program officials shall create and maintain adequate and proper documentation of the program for which they are responsible. This means a record of the conduct of government business that is complete and accurate to the extent required to document the organization, functions, policies, decisions, procedures, and essential transactions of their office and to protect the legal and financial interest of the government and of persons directly affected by the activities of their office.

These documentation requirements were not followed by the Treasury officials when monitoring the financial agents. A Treasury official attributed the lack of documentation to a limited number of staff available to implement the program. He also added that during normal government operations, monitoring processes, including site visits, would be documented. However, because he believed the situation was exigent, and the program was sensitive in nature, the team focused on the higher-priority program operations as opposed to the administrative documentation procedures. The official also told us that Treasury relied on the financial agents' own system of internal control, which included independent audit reports on the controls, in carrying out their fiduciary responsibilities. While we understand the extraordinary circumstances the Treasury officials faced while implementing the program, we believe documentation would not have taken much time or resources as it could have been simple annotations or short notes to record the monitoring activities.

Because the monitoring activities were not well documented, we could not verify whether Treasury officials made adequate assessments of the trading environment at the financial agents during the site visits.

Recommendation

We recommend that the Fiscal Assistant Secretary develop policies and procedures that include documentation requirements for the operations of future programs that may use a financial agent's services.

Management Response

Treasury management accepted the recommendation.

Financial Agents Were Not Required to Establish Physical Barriers When Purchasing Agency MBS on Behalf of Treasury

We performed site visits to verify whether the financial agents were in compliance with the ethical wall provision in Section 10 of the FAA. That provision stated that the financial agent shall employ suitably robust internal controls to ensure that its personnel and affiliates do not divulge information regarding Treasury's portfolio to other personnel involved with the financial agents' trading, brokerage, sales, or other activities that may conflict with its duties to Treasury.

We observed the seating arrangements of the traders and portfolio managers to assess whether the traders working for Treasury were either isolated or distanced from other traders to limit the flow of their trading information. We noted that there were no notable physical barriers between the traders working for Treasury and other traders. The traders sat near other fixed-income traders during the agency MBS purchase phase. At State Street, the trader and the portfolio manager working for Treasury sat one section apart from other portfolio managers, who had the capability to issue trade orders. In March 2011, prior to the announcement of the disposition of the portfolio, at the request of Treasury officials, State Street's agency MBS team was moved from the trading floor to an area near the information technology department. When we visited Barclays, we noted one trader conducting business on behalf of Treasury, performing both trade and portfolio management functions. He sat next to securitized asset traders until replaced by another trader in February 2009. The new trader was placed in a separate office for his exclusive use shortly after he assumed the job. The previous trader told us that before he was replaced by the new trader, he used an empty conference room on the trade floor whenever he needed to talk to Treasury officials. According to Barclays' management, the trader did not have an office due to space limitations at the time.

The Securities and Exchange Commission's (SEC) *Guide to Broker-Dealer Registration* describes the firms' duty to protect clients from the misuse of non-public information. It requires written policies and procedures reasonably designed to prevent employees from misusing material non-public information. It also states that firms need to create procedures designed to limit the flow of this information so that employees cannot use the information in trading securities. To limit the flow of such information, SEC recommends procedures such as training, implementing employee trading restrictions, using physical barriers, isolating certain departments, and limiting proprietary trading.[12]

The Treasury official we interviewed about this issue told us that it was his understanding that the guide applied only to broker-dealers and not to financial agents that were engaged as asset managers. We determined that the financial agents in this case played, in part, a broker's role because financial agents conducted transactions on behalf of their client, Treasury, and charged fees for their services.[13] Accordingly, we believe that the SEC guidance applies in this situation.

The Treasury official also did not believe that there was any need for physical barriers. He said there were adequate compensating controls at the financial agents to mitigate the potential risks that such seating arrangements might cause, and that both financial agents established frameworks to prevent and detect the misuse of non-public information through their respective compliance offices. Those offices monitor insider trading by validating controls and reviewing and performing analyses on trade history. The Treasury official further stated

[12] U.S. Securities and Exchange Commission, Division of Trading and Markets, *Guide to Broker-Dealer Registration, Article V, Section 8,* April 2008

[13] A broker-dealer refers to a person or, more often, a firm, that acts as a broker for some transactions and a dealer for others. That is, a broker conducts transactions on behalf of clients, and a dealer trades on his/her own account. In practice, most brokerages are, in fact, broker-dealer firms, and broker-dealers must register with the SEC.

that at State Street, a majority of the fixed-income accounts were comprised of passive trades and less than 5 percent of its MBS accounts were comprised of active trades. The Treasury official's statement about State Street's trading activities was consistent with information in the financial agent's proposal submitted in September 2008.[14] We also reviewed Barclays' proposal for the same time period and noted that in June 2008, approximately 16.3 percent of fixed-income accounts were actively managed. The Treasury official said that passive trade strategies do not allow portfolio managers and traders to execute opportunistic trades based on unauthorized use of non-public information because such attempted activity would violate the investment policy and would be detected and reported by the client, the compliance office, and the back offices that report on performance relative to the indices and benchmarks.

Whether the compensating controls were robust enough to prevent the divulgence of non-public information was questionable nevertheless. On one hand, the limited active trading does not entirely preclude opportunistic trading. On the other hand, the establishment of trade barriers with the compensating controls is not commensurate with an establishment of communication barriers among the personnel dealing with non-public information. In this regard, the intent of the SEC's guidance is not so much establishing trade barriers as it is establishing communication barriers.

Evidence of Treasury officials' awareness of the importance of requiring physical barriers is shown in a draft of the FAA that we obtained when we visited Barclays. The ethical wall section of the draft FAA stated that the financial agent shall "adequately segregate" its personnel assigned to manage the Treasury's portfolio from other personnel. But this requirement was later changed to a less stringent one in the final FAA, in that the financial agent shall employ "suitably robust internal

[14] With passive accounts, a firm invests funds to generate yield based on matching the securities to an index or market benchmark, and therefore, accounts are not based on discretionary trades to generate active trading profits.

controls" to ensure that its personnel do not divulge information regarding Treasury's portfolio to other personnel.

From our interviews with Barclays' employees, we found that the terms of the FAA were changed because Barclays was reluctant to accept the requirement due to space limitations. But adequately segregating the single trader did not necessarily require a separate office. The trader could have, for example, used a trade desk away from other securitized asset traders. We believe that requiring the financial agents to use physical barriers on their trading floor was a best practice of internal controls for the financial agents and Treasury that should have been employed given that the financial agents were entrusted with several hundred billion dollars of taxpayers' money.

Recommendation

We recommend that for future programs that may require the trading of securities by a financial agent, the Fiscal Assistant Secretary should assess the need for separate physical barriers for the traders executing trades or performing other services on behalf of Treasury, based on the associated risk, compensating controls and other possible factors, to ensure the safeguarding and protection of confidential information. If the Fiscal Assistant Secretary determines that separate physical barriers are required, the FAA should stipulate such a requirement.

Management Response

Treasury management accepted the recommendation.

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We appreciate the courtesies and cooperation provided to our staff during the audit. If you wish to discuss the report, you may contact me at (202) 927-6516 or Michael Maloney, Audit Director, at (202) 927-6512. Major contributors to this report are listed in appendix 4.

/s/
Marla A. Freedman
Assistant Inspector General for Audit

The objectives of this audit were to assess the Department of the Treasury's (Treasury) (1) execution of the Agency Mortgage Backed Securities (MBS) Purchase Program and (2) oversight of the financial agents it hired to execute the program on its behalf.

To accomplish our objectives, we

- determined Treasury's authorities under the Housing and Economic Recovery Act of 2008 to purchase and sell agency MBS and hire financial agents.

- reviewed industry guidance and standards.

- obtained and reviewed policies and procedures provided by Treasury and financial agents, such as financial agency agreements and firewall policies.

- reviewed evidence of monitoring activities performed by Treasury over the financial agents.

- conducted onsite interviews with key agency MBS team members at the financial agents and performed walkthroughs to inspect the seating arrangements of the agency MBS team at Barclays' San Francisco office and State Street's Boston office. We also obtained and reviewed the financial agents' agency MBS trading records.

- interviewed the current and former Treasury officials who implemented the program and monitored the financial agents.

We conducted our fieldwork from May 2011 through January 2012 at Treasury's Office of Domestic Finance in Washington D.C., Barclays in San Francisco, California, and State Street in Boston, Massachusetts.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To stabilize the mortgage market during the financial crisis in 2008, Treasury exercised its authority under the Housing and Economic Recovery Act of 2008 (HERA) to purchase agency mortgage backed securities (MBS) guaranteed by the two government-sponsored enterprises – Fannie Mae and Freddie Mac – to inject liquidity into the frozen mortgage market. By purchasing these securities in the open market, Treasury sought to broaden access to mortgage funding for current and prospective homeowners and promote stability in the mortgage market. After the inception of the Agency MBS Purchase Program in September 2008, Treasury purchased agency MBS worth approximately $225 billion through two financial agents, State Street Bank and Trust Company (State Street) and the New York Branch of Barclays Bank PLC (Barclays).[15] The two financial agents purchased agency MBS until Treasury's purchase authority under HERA expired on December 31, 2009. At that time, Treasury determined that only one financial agent was necessary to manage the agency MBS portfolio and consequently, ended the relationship with Barclays. Barclays' agency MBS portfolio was transferred to State Street.

The Board of Governors of the Federal Reserve System (FRB) entered the agency MBS market in January 2009, 4 months after Treasury's Agency MBS Purchase Program started. The objective of FRB's program was to lower long-term interest rates by purchasing 30-year agency MBS and provide liquidity to the financial institutions. The expectation was that by increasing liquidity, banks would be able to build their reserves, which would result in less of a need for them to borrow, causing interest rates to fall. The program was managed by the Federal Reserve Bank of New York at the direction of the Federal Open Market Committee.[16] Through its program, which ended in March 2010, FRB purchased $1.25 trillion of agency MBS.

[15] JPMorgan Chase was the third financial agent and it served as the program's custodian. Smith Graham Investment Advisors was hired as a contractor to State Street to assist with MBS sales.
[16] The Federal Open Market Committee is a part of FRB, and is the main body to decide on and implement monetary policies. Specifically, the committee conducts open market operations through purchases or sales of Treasury securities. In that way, it tries to achieve its dual mandates of maintaining price stability and sustainable economic growth.

On March 21, 2011, Treasury announced its decision to dispose of its agency MBS portfolio. The decision was based on the following: (1) the mortgage market was notably improved and managing a large mortgage portfolio was not part of the Department's mission, (2) the disposition of the agency MBS portfolio was consistent with Treasury's strategy of divesting the financial assets it acquired through its financial stabilization programs in 2008 and 2009, (3) the disposition would protect taxpayers by locking in unrealized gains from purchasing securities at depressed prices, and (4) the proceeds of sales would lower the borrowing needs for Treasury.

In an analysis conducted in November 2010 to assess the MBS market conditions, Treasury officials determined that the market conditions were favorable to divest the agency MBS portfolio because (1) the average mortgage index price was near its highest since September 2008 and (2) the coupon London Interbank Offered Rate (LIBOR) option adjusted spread (OAS), a key indicator that measures the risk premium of the securities, had fallen to a range of where it had been 6 months before.[17,18] Treasury officials also predicted that the supply of agency MBS was likely to be negative in 2010 and flat in 2011, while the demands for agency MBS would be steady, implying a continued rise in agency MBS prices and values for the future. The analysis also noted that FRB was committed to buying high-grade fixed-income assets, including agency MBS.

The favorable assessment on the MBS market was also supported by State Street's analytical work that we obtained. As part of the financial agency agreement, State Street provided market analysis services for Treasury. In a presentation to Treasury officials in February 2010, State Street presented a number of financial indicators that suggested improvement in the mortgage market. For example, the Treasury OAS markedly decreased to its pre-crisis level since the market interventions by Treasury and FRB. The LIBOR OAS also decreased

[17] LIBOR is an interest rate at which banks can borrow funds from other banks in the London interbank market. It is the world's most widely used benchmark for short-term interest rates.
[18] OAS is calculated as the return from holding an MBS relative to a benchmark, such as a Treasury yield or swap rate, adjusted for the estimated risk premium associated with a prepayment option.

substantially since the interventions, indicating a stabilized mortgage market. The mortgage financing costs, measured by the 1-month agency MBS repurchase agreement rate, also declined significantly from the time of the interventions.[19] A cross-sector spread comparison showed that mortgage spreads outperformed relative to other sectors–automobiles, 5-year agency bond, credit cards, and commercial MBS, which State Street believed was the most significant program success metric.

After Treasury announced the disposition plan, State Street executed the agency MBS sales, capping it at $10 billion a month but subjecting the amount to change depending on market conditions. Treasury completed the wind down of its agency MBS portfolio by March 2012. Treasury reported that overall, cash returns of $250 billion were received from the agency MBS portfolio through sales, principal, and interest.

[19] Repurchase agreement or repo is the sale of securities with an agreement to buy back the securities at higher prices at a later date.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

December 15, 2012

Marla A. Freedman
Assistant Inspector General for Audit
Office of the Inspector General
Department of the Treasury
1500 Pennsylvania Avenue, NW
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Dear Ms. Freedman:

I write in response to your November 21, 2012 letter with which you provided a draft of your Audit Report, *Treasury Implemented the Mortgage Backed Securities Purchase Program Consistent With Its Authorities, But Needs to Improve Oversight of Financial Agents* (Report). The Office of Fiscal Assistant Secretary appreciates the important work of the Office of Inspector General (OIG) and your review of the programs that the Department of the Treasury (Treasury) established and implemented under the authority that Congress provided to Treasury in the Housing and Economic Recovery Act of 2008 (HERA), including the Treasury program to purchase mortgage-backed securities (MBS) guaranteed by Fannie Mae and Freddie Mac (Agency MBS Purchase Program). This letter provides our official response to the draft Report.

We appreciate that the draft Report states that "Treasury executed the Agency MBS Purchase Program consistent with its authorities provided by HERA" and recognizes that "Treasury implemented the Agency MBS Purchase Program in an effort to stabilize the mortgage market at a time of unprecedented volatility and illiquidity as a result of the financial crisis." In addition, we appreciate that the Report recognizes that Treasury officials monitored the financial agents' execution of the Agency MBS Purchase program by receiving daily summaries of transactions and settlements, making weekly calls to discuss program status and strategy, conducting quarterly reviews, receiving annual certifications, and making site visits.

The draft Report makes two recommendations. The first recommendation is that the Fiscal Assistant Secretary develop policies and procedures that include documentation requirements for monitoring the operations of future programs that may use a financial agent's services. The second recommendation is that, for future programs that may require the trading of securities by a financial agent, the Fiscal Assistant Secretary should assess the need for separate physical barriers for the traders executing trades, based on the associated risk, compensating controls and other possible factors, to ensure the safeguarding and protection of confidential information. If the Fiscal Assistant Secretary determines that separate physical barriers are required, the financial agency agreement should stipulate such requirement. Treasury accepts both recommendations. As the draft Report notes, in March 2011, before Treasury directed its financial agent to begin disposing of the MBS portfolio, Treasury requested its financial agent to segregate the employees working on the Treasury program, and the team was moved from the trading floor. Also in March 2011, the Treasury staff who monitored the performance of Treasury's financial agent began documenting the site visits to the financial agent.

Thank you for the opportunity to review the draft Report. We value the role of strong oversight, and we look forward to continuing to work with your office in the future.

Sincerely,

Richard L. Gregg
Fiscal Assistant Secretary

Michael J. Maloney, Director, Fiscal Service Audits
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