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Term Securities Lending Facility Options Program (TOP) Terms and Conditions

Federal Reserve System: Federal Reserve Bank of New York

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Term Securities Lending Facility Options Program (TOP) Terms and Conditions

The System Open Market Account (SOMA) Term Securities Lending Facility Options Program (TOP) offers options to draw upon loans of U.S. Treasury securities from the SOMA portfolio in accordance with the program terms and conditions set forth below and in the Term Securities Lending Facility (TSLF) terms and conditions. All terms and conditions are subject to change.

The following terms and conditions may be revised as market conditions warrant.

Effective February 3, 2009

CURRENT TERMS AND CONDITIONS

Options on TSLF

The Federal Reserve Bank of New York Open Market Trading Desk (Desk) will offer options to primary dealers to draw new supply of short-dated TSLF loans that span key periods of heightened collateral market pressures, such as quarter-end dates. If these options are exercised, the borrower receives a loan of Treasury general collateral at a fixed rate against a pledge of TSLF-eligible collateral. The price of the options will be determined in a competitive auction.

TOP Auctions

The Desk will auction the right to borrow general Treasury collateral, including Treasury bills, notes, bonds and inflation-indexed securities, held by SOMA against collateral currently eligible for TSLF operations. Similar to the TSLF, options will be sold to primary dealers based on competitive bidding, subject to a minimum bid requirement and dealer award limits. Multiple TOP auctions may be held for each option-related TSLF loan.

The TOP is a single-price auction. Accepted dealer bids will be awarded at the lowest price at which bids were accepted. Dealers may submit up to two bids at each TOP auction. The New York Fed reserves the right to reject or declare ineligible any bid, entirely at its own discretion. Each dealer's aggregate award is limited to no more than 20 percent of the offering amount.

On expiration day, option holders will have the opportunity to exercise and draw upon the underlying TSLF loan or allow the option to expire without a claim. Dealers can draw upon a TSLF loan by submitting draw requests, in increments of \$1 million, up to the amount of options held, at a predefined fixed rate.

Short-Term Lending at a Fixed Rate

Option holders will have the right to draw upon a short-term TSLF loan at a fixed rate on a loan that will extend over a potential stress date. The fixed rate will be announced before each TOP auction. TSLF loans made under the TOP program will settle one business day after the TOP expiration date. In most cases, the term and settlement of the loan will not coincide with regularly scheduled TSLF auctions, and the term of option-related TSLF loans will be shorter than regularly scheduled TSLF auctions.

Offering Amount

The Desk will offer a total of \$50 billion in options for each targeted period. The Desk may conduct one or more TOP auctions per period. Undersubscribed amounts from the first TOP auction in a given period will be reoffered in subsequent TOP auctions on the same underlying TSLF loan, if there is more than one TOP auction per underlying TSLF loan.

Offering Amount

The Desk will offer a total of \$50 billion in options for each targeted period. The Desk may conduct one or more TOP auctions per period.

Eligible Collateral

Dealers exercising options will receive a basket of Treasury general collateral against TSLF-eligible collateral.

Announcement of TOP Auctions

The New York Fed will generally issue an announcement at 1:00 p.m. ET one day before the first TOP auction specifying the term of the underlying loan and the Treasury securities being offered over the term of the loan. The announcement will also specify the minimum bid rate, auction start and close times, option expiration date, exercise operation date and time, and loan settlement and maturity dates.

Auction Date and Time

TOP auctions will take place well before option expiration dates. The start time of the auctions will be 2:00 p.m. ET and remain open for approximately 30 minutes, unless otherwise stated in the auction announcement. Bids will not be considered outside of this auction time.

Number of Dealer Propositions per Auction

Dealers are allowed to submit two propositions in each TOP auction. Each bid may not exceed 20 percent of the offering amount.

Dealer Award Limits

Dealer awards will be limited to no more than 20 percent of the amount offered during each auction. A dealer's combined awards in all TOP auctions covering the same TSLF loan will also be subject to a 20 percent limit. The New York Fed reserves the right to further restrict dealer bids at its discretion.

TOP Auction Minimum Bid Rates

The minimum bid rate at TOP auctions will be one basis point. Bids on the options can be considered option premia, or the cost of purchasing the right to borrow from TSLF at a fixed rate at a future date.

TOP Auction Minimum Bids, Bid Increments, and Partial Awards

Dealers will be allowed to bid for a minimum of \$10 million in par value and in increments of \$10 million in par value to the maximum allowed per dealer according to program limits. Partial auction awards will be rounded in \$1 million increments.

Determination of Awards

The New York Fed will review and accept bids at the highest rate through successively lower rates. The aggregate amount of all accepted bids shall not exceed the lesser of (i) the offering amount (par value of Treasury GC), and (ii) the aggregate amount of all bids submitted at or above the minimum bid rate. When necessary, bids at the lowest accepted bid rate will be prorated. Auction awards will be rounded according to the rounding convention specified in the announcement.

Option Exercise

TOP options are European, and may only be exercised at maturity, one day before the start of the underlying TSLF loan.

Option Fees

The option premium to be collected will be determined by the auction award, stop-out bid rate for the TOP auction, the weighted-average "clean" price of the basket of the identified general Treasury collateral one business day prior to the option expiration date and the term of the underlying TSLF loan on an actual-over-360 basis. The option premium will be collected regardless of the dealer's exercise decision.

Announcement of Auction Results

Both the total amount of options purchased and the award rate will be released in a timely manner after the TOP auction is complete. The aggregate results including the stop-out award rate, total propositions submitted and accepted, as well as the bid-to-cover ratio will be posted on the New York Fed's website. On expiration date, the total amount of options exercised will be released in a timely manner on the New York Fed's website.

Program Termination

TOP will remain available to primary dealers until October 30, 2009 or longer if conditions warrant.

Program Terms and Conditions: December 2, 2008 >>
