DEPARTMENT OF THE TREASURY
WASHINGTON

October 16, 1991

CHRONOLOGY OF EVENTS INVOLVING SALOMON BROTHERS

TREASURY PERSONNEL AND ORGANIZATIONAL STRUCTURE

Finance:
- Robert Glauber, Under Secretary

Domestic Finance:
- Jerome Powell, Assistant Secretary
- Michael Basham, Deputy Assistant Secretary (Federal Finance)
- Jill Ouseley, Director, Office of Market Finance
- Norman Carleton, Director, Office of Federal Finance Policy Analysis

Office of the Fiscal Assistant Secretary:
- Gerald Murphy, Fiscal Assistant Secretary

- Bureau of the Public Debt:
  - Richard Gregg, Commissioner
  - Calvin Ninomiya, Chief Counsel
- Government Securities Regulations Staff:
  - Ken Papaj, Director
  - Don Hammond, Assistant Director
- Office of Financing:
  - Carl Locken, Assistant Commissioner
  - Michael Sunner, Deputy Assistant Commissioner
  - Lee Grandy, Government Securities Specialist
  - Kurt Eidemiller, Financing Analyst

Office of the General Counsel:
- Dennis Foreman, Deputy General Counsel
- John Bowman, Assistant General Counsel (Banking & Finance)
- Virginia Rutledge, Attorney Advisor
- Laurie Schaffer, Attorney Advisor
- Ivan Dubovsky, Attorney Advisor

Legislative Affairs:
Mary Sophos, Assistant Secretary

Policy Management:
Hollis Mcloughlin, Assistant Secretary

Responsibilities for the issuance of Treasury securities are divided between the Office of the Assistant Secretary for Domestic Finance, which has responsibility for debt management policy, and the Bureau of the Public Debt, which plays the primary operational role in Treasury auctions under the supervision of the Fiscal Assistant Secretary. The Assistant Secretary for Domestic Finance, Jerome H. Powell, reports to the Under Secretary for Finance, Robert Glauber. Within Domestic Finance, the Deputy Assistant Secretary for Federal Finance, who reports to Mr. Powell, has responsibility for debt management policy. This position was held by Michael Basham through August 1991. The Office of Federal Finance Policy Analysis and the Office of Market Finance are located within Federal Finance. The Office of the Assistant General Counsel, Banking and Finance, within the Office of the General Counsel, provides legal counsel for Domestic Finance and for the Fiscal Assistant Secretary.

The Bureau of the Public Debt is located within the Fiscal Service of the Department of the Treasury. The Commissioner of the Public Debt, Richard L. Gregg, reports directly to the Fiscal Assistant Secretary, Gerald Murphy. Mr. Murphy reports directly to Mr. Glauber. The Government Securities Regulations Staff reports directly to the Commissioner. The Chief Counsel is the legal advisor for the Bureau and reports to the Assistant General Counsel, Banking and Finance. The Assistant Commissioner, Office of Financing, Carl M. Locken, also reports directly to Mr. Gregg. Mr. Locken's office is responsible for the conduct of Treasury's marketable debt auctions.

CHRONOLOGY

February 21: Auction of 5-year Treasury notes took place. At approximately 1:30 p.m., Stu Zorfas, Chief, Open Market Function at the Federal Reserve Bank of New York (FRBNY), called the Office of Financing at the Bureau of the Public Debt and spoke with Lee Grandy, Government Securities Specialist in the Office of Financing who was in charge of the auction that day. Mr. Zorfas informed Mr. Grandy of the submission of two tenders from different bidders to the FRBNY that appeared to be from related entities. One tender, for an amount equal to 35% of the total public offering, had been placed by Salomon Brothers in the name of Warburg Asset Management. S.G. Warburg & Co., Inc., a primary dealer, separately submitted a tender at the same yield for its own account.

Mr. Zorfas indicated that just prior to calling Treasury, he had called Salomon Brothers concerning the Warburg Asset Management bid. At this time, a Salomon Brothers clerk stated that the bid was actually from Mercury Asset Management, which was previously called Warburg Asset Management.

After discussing the matter with other Office of Financing staff, Mr. Grandy decided to treat the two tenders as though they were from separate entities because the award proration methodology would reduce the combined amounts awarded to less than 35% of the total issue. In addition, Mr. Grandy did not believe it was possible to immediately and thoroughly research the entities' relationship and still release the auction results by the deadline. However, it was decided that the relationship between the two bidding entities warranted further inquiry for future auctions.

Mr. Zorfas indicated that he would notify Dealer Surveillance at the FRBNY of the situation and the Treasury's decision in this particular auction. After the auction, Treasury staff referred the issue of whether the two Warburg entities were really a single bidder to Assistant Commissioner Locken.

Kurt Eidemiller, Financing Analyst, Office of Financing, who was assigned as contact with FRBNY during this period, called Mr. Zorfas between 2:00 pm and 4:00 pm to discuss the problem. Mr. Eidemiller requested that FRBNY fax copies of Salomon Brothers' and S.G. Warburg's tender forms. Copies were received the following day.

February 22: Mr. Eidemiller spoke with Mr. Zorfas who confirmed that the question as to whether S.G. Warburg and Mercury Asset Management should be considered a single-bidder had been referred to FRBNY's Dealer Surveillance unit for review of their files.

February 25-29: Mr. Eidemiller and Mr. Grandy reviewed office files regarding single bidder guideline precedents as they related to the Warburg/Mercury case.

March 1: Mr. Eidemiller again discussed the case with Mr. Zorfas, who told Mr. Eidemiller that the matter had been referred to Barbara Walter, Vice President, Dealer Surveillance, FRBNY.

March 4: Mr. Eidemiller again discussed the case with Mr. Zorfas, who gave him Ms. Walter's phone number.

March 5: Mr. Eidemiller spoke with Ms. Walter who informed him that a search of their files on S.G. Warburg did not reveal any information relevant to the Office of Financing's inquiry. However, Mr. Eidemiller obtained from Ms. Walter contacts for Salomon Brothers and S.G. Warburg.

That morning, Mr. Eidemiller called Thomas Murphy, Managing Director at Salomon Brothers, regarding the tender for Warburg Asset Management. Mr. Murphy said that he could not discuss the matter at that time but would call back later that day. At approximately 6:00 pm, Mr. Murphy called Mr. Eidemiller to explain that there had been a clerical mistake in the tender and that the bid had actually been from Mercury Asset Management.

March 6: Mr. Murphy called Mr. Eidemiller and provided information about Mercury Asset Management and gave details over the phone on the structure of S.G. Warburg & Co., Inc.

March 8: Mr. Eidemiller spoke with Larry Leuzzi, Co-Director of bond trading at S.G. Warburg & Co. regarding the structure of Mercury Asset Management and its relationship to S.G. Warburg. Mr. Eidemiller did not mention the tender submitted by Salomon Brothers on behalf of Mercury Asset Management. Mr. Leuzzi provided Mr. Eidemiller with details and telephone numbers of Mercury Asset Management's New York and London offices.

March 11: The case was discussed with Assistant Commissioner Locken and Deputy Assistant Commissioner Michael Sunner, Office of Financing. Mr. Locken asked that the matter be discussed with Calvin Ninomiya, Chief Counsel, Bureau of the Public Debt.

March 12: Mr. Eidemiller and Mr. Grandy met with Mr. Ninomiya to discuss how to treat S.G. Warburg & Co., Inc. and Mercury Asset Management in future auctions.

March 14: Scott Strauss, Dealer Surveillance, FRBNY, called Mr. Eidemiller regarding the status of the review of the case. Mr. Eidemiller indicated that a final decision had not been made.

March 25: Mr. Eidemiller sent a memorandum on the Warburg case to Mr. Locken. The memorandum presented three options for action in this case:

1. Treat S.G. Warburg & Co., Inc. and Mercury Asset Management as two separate bidders for the purposes of the 35% rule.

2. Treat S.G. Warburg & Co., Inc. and Mercury Asset Management as a single bidder for the purposes of the 35% rule. Inform S.G. Warburg and Mercury of the decision and allow them to attempt to demonstrate otherwise.

3. Request that Dealer Surveillance, FRBNY, investigate the true nature of the relationship and the implications for the 35% rule.

April 4: Mr. Eidemiller discussed with Mr. Locken the three options in the paper. Mr. Locken routed the paper to Mr. Sunner and Mr. Ninomiya.

April 9 or 10: Messrs. Locken, Sunner and Ninomiya discussed the options and decided to accept option 2. It was determined that Treasury would place the burden of proof on Warburg to show that Mercury Asset Management and S.G. Warburg & Co., Inc. should be treated as separate entities under the single-bidder guidelines.

April 17: Mr. Sunner signed a letter to Charles Jackson, Senior Director, Mercury Asset Management which informed him of the decision to treat S.G. Warburg & Co., Inc., and Mercury Asset Management as a single bidder for purposes of the 35% rule. This letter provided details of the two bids submitted in the February 5-year note auction. Copies of the letter were sent to officers of S.G. Warburg, S.G. Warburg, PLC (the British parent company), and the Federal Reserve Bank of New York. In addition, a copy of the letter was sent to Paul Mozer, Managing Director of Salomon Brothers.

April 23: Peter Bass, Director of S.G. Warburg's Group North American Fixed-Income Division, which includes Warburg's primary dealership, called Mr. Sunner from London to discuss the April 17 decision letter. Mr. Sunner explained the basis of the decision, and Mr. Bass expressed an interest in appealing the determination. Mr. Sunner indicated that he should write and explain why S.G. Warburg and Mercury should be treated as two separate entities.

During this period, Mr. Sunner also spoke with Ken Guentner, Assistant Vice President, FRBNY, who related that Peter Sternlight, Executive Vice President, FRBNY, had raised some questions about the single-bidder determination in the Warburg/Mercury case. Mr. Sternlight also spoke with Michael Basham, Deputy Assistant Secretary, Federal Finance, about the case.

April 30-May 1: The Treasury Borrowing Advisory Committee met to discuss Treasury's quarterly refunding. Gedale Horowitz, Senior Executive Director of Salomon Brothers participated in the meetings as a regular member of the committee.

In a meeting with Treasury and FRBNY officials, Mr. Sternlight mentioned that Salomon Brothers and its customers had bought a high proportion of the April 5-year notes, auctioned on April 25, 1991. Present from Treasury were Under Secretary Robert Glauber, Mr. Basham, and Jill Ouseley, Director, Office of Market Finance. Ms. Ouseley requested historical data on auction award concentration from the FRBNY.

Early May: Mr. Sunner received a letter dated April 25, 1991, from Mr. Jackson, which stated that he had reviewed the firm's position on the single-bidder issue with Mr. Bass and they did not envisage difficulties with Treasury's decision.

May 13: Joan Lovett, Senior Vice President, FRBNY, gave Ms. Ouseley a survey of large dealer awards at Treasury note and bond auctions since 1985.

May 22: Mr. Sunner wrote to Ms. Lovett to transmit Mercury's response. Auction of May 1991 2-year notes took place. Ms. Lovett alerted Mr. Basham to a concentration of ownership as a result of the auction.

Last week of May: Mr. Sunner received a letter from Mr. Bass, dated May 22, 1991, which requested that Treasury reconsider and reverse its single-bidder determination.

May 29: Mr. Basham called William Heyman, Director, Market Regulation, SEC, to discuss the concentration of ownership and subsequent "squeeze" on the May 1991 2-year note that had become evident in market price movements and complaints of market participants. Mr. Basham mentioned his suspicions regarding Salomon Brothers' position in these securities. Mr. Sternlight also called Mr. Basham about the 2-year note situation.

The same day, John Bowman, Assistant General Counsel, and Laurie Schaffer, Attorney Advisor, Office of the Assistant General Counsel, Banking and Finance and Norman Carleton, Director, Office of Federal Finance Policy Analysis, called Joseph Goldstein, Division of Enforcement, SEC, alerting him to the "squeeze" in the May 2-year note.

May 29-30: At Mr. Basham's request, Ken Papaj, Director, Government Securities Regulations staff, contacted Frank Dalton, Division of Investment Management, SEC, and Gary Miller, Commodity Futures Trading Commission (CFTC), to determine if certain customers of Salomon Brothers were registered with either the SEC as investment companies or with the CFTC as commodities brokers.

May 30: Jerome Powell, Assistant Secretary, Domestic Finance, discussed the 2-year note situation in a phone call with Mr. Heyman.

Don Hammond, Assistant Director, Government Securities Regulations Staff, called the SEC to determine whether several of Salomon Brothers' customers were registered with the SEC as investment companies.

May 31: Steve Bell, Managing Director of Salomon Brothers, called Mr. Glauber and suggested that he contact Paul Mozer, Managing Director of Salomon Brothers to discuss the May 2-year note squeeze. Mr. Glauber had several subsequent telephone calls from Mr. Bell on this subject.

June 3: The 2-year note squeeze and the 35% rule were discussed in a conference call with Treasury and FRBNY staff. Those participating were Mr. Sternlight, Mr. Basham, Ms. Lovett, Mr. Carleton, Mr. Papaj, and Virginia Rutledge, Attorney Advisor, Office of the Assistant General Counsel, Banking and Finance.

June 4: Mr. Sunner notified Mr. Bass by letter that his request for reconsideration of the initial decision had been referred to the Chief Counsel, Bureau of the Public Debt.

Mr. Basham discussed Salomon Brothers' position and expressed Treasury's concerns about the May 2-year note squeeze in a telephone call to Mr. Mozer.

Secretary Brady received a letter from Congressman Edward Markey dated June 3 requesting information on the May 2-year note squeeze.

June 6-7: Mr. Powell and Mr. Heyman discussed the 2-year note squeeze in a telephone call. Mr. Basham discussed the situation with Mr. Sternlight. Throughout subsequent weeks, Mr. Basham had numerous discussions with Mr. Sternlight and Ms. Lovett about the positions of Salomon Brothers and its customers in the May 2-year note and possible policy responses to the problem.

June 10: John Gutfreund, Chairman of Salomon Brothers, initiated a meeting with Mr. Glauber, Mr. Powell and Assistant Secretary for Policy Management Hollis McLoughlin to explain the firm's point of view with respect to the May 2-year notes. Mr. Glauber was also contacted by Thomas Strauss, President of Salomon Brothers, subsequent to this meeting.

June 11: Mr. Basham received additional information on large auction awards from the FRBNY.

June 19: Mr. Basham met with Mr. Murphy of Salomon Brothers and expressed Treasury's concerns about the May 1991 2-year note squeeze.

June 20: Mr. Basham received a draft letter from Mr. Heyman to be sent to Salomon Brothers and certain other investors requesting information on the April and May 2-year notes.

Late June-July: Mr. Basham had numerous telephone calls from Don Kohn, Director, Division of Monetary Affairs, Federal Reserve Board, regarding the 2-year note squeeze.

During this period, Mr. Carleton and Christopher Kelly of the Justice Department discussed the type of Treasury auction data needed for their investigation. Subsequently, Ms. Rutledge and Ivan Dubovsky, Attorney Advisor, Office of the Assistant General Counsel, Banking and Finance, had discussions with Mr. Kelly.

July 1: Assistant Secretary for Legislative Affairs Mary C. Sophos sent a letter of response to Congressman Markey's letter of June 3. The letter acknowledged that a squeeze had occurred and stated that Treasury would look at changes in auction rules that might make concentration of ownership as a result of auctions less likely.

Mr. Basham met with Christopher Kelly, Jonathan Rich and Bryan Garczyk of the Justice Department to discuss the May 2-year note squeeze.

Early July: Mr. Basham spoke with Betsy White, Vice President, FRBNY, and Ms. Walter about the May 2-year note situation.

July 8: Ms. Sophos spoke with Mr. Bell about the status of the response to Congressman Markey's letter of June 3.

July 24: A special meeting of the Public Securities Association Primary Dealer Committee took place at the FRBNY to discuss the 2-year note squeeze and potential changes to auction rules that might mitigate the award concentration problem. Mr. Basham attended the meeting, as well as Mr. Sternlight and representatives of the primary dealers, including Salomon Brothers.

July 26: Meetings took place with 10 primary dealer representatives at the FRBNY to discuss the August mid-quarter Treasury refunding. Present from Treasury were Mr. Basham and Ms. Ouseley. Representing Salomon Brothers were Mr. Horowitz, Mr. Murphy, and Susan Hering, Director and Economist.

July 30-31: Meetings with Treasury Borrowing Advisory Committee to discuss the August Treasury refunding and possible auction rule changes took place. Mr. Horowitz attended the meetings from Salomon Brothers. Mr. Glauber, Mr. Powell, Ms. Ouseley, and Mr. Basham attended from Treasury, and Ms. Lovett and Mr. Guentner from FRBNY.

August 9: Mr. Gutfreund informed Under Secretary Glauber by telephone of the unauthorized Mercury bid and his knowledge of this since April. Treasury officials were provided with an advance copy of Salomon Brothers' announcement released later that day.

Gerald Corrigan, FRBNY, Alan Greenspan, Federal Reserve Board, Richard Breeden, SEC, Mr. Glauber and Mr. Powell discussed the situation by telephone.

August 10-14: Telephone calls between Mr. Corrigan, Mr. Breeden, Mr. Brady and Mr. Glauber took place.

August 13: Mr. Basham received a copy of a letter from Peter Sternlight, FRBNY to Mr. Gutfreund.

August 14: Mr. Basham, Mr. Bowman, and Ms. Rutledge, along with staff from other agencies, attended a meeting at the SEC with the law firm of Wachtell, Lipton, Rosen & Katz, which was representing Salomon Brothers. Mr. Bowman also attended a meeting at the Justice Department with the firm. The Wachtell, Lipton lawyers detailed the results of their investigation of the irregularities and rule violations in Treasury auctions as well as related matters.

August 15: Several telephone calls took place involving Mr. Brady, Mr. Corrigan and Mr. Greenspan.

Beginning in mid-August, numerous telephone conversations took place between Ms. Rutledge, Mr. Bowman, Don Ringsmuth, Associate General Counsel, FRBNY, and Mary Sue Fisher, Office of the General Counsel, FRBNY, concerning the ongoing investigations.

August 16: Telephone calls between Mr. Brady, Mr. Greenspan and Mr. Corrigan took place. Present at a meeting at the FRBNY that day were Mr. Corrigan, Mr. Powell, Mr. Bowman, Mr. Sternlight, Ms. Lovett, and Ms. Fisher. Ms. Rutledge attended a meeting with attorneys from the SEC and the Justice Department.

August 18: Mr. Powell and Mr. Sternlight discussed plans to restrict Salomon Brothers' participation in Treasury auctions. Mr. Brady, Mr. Powell, Mr. Greenspan, and Mr. Corrigan discussed the situation in numerous phone calls. Mr. Brady, Mr. Powell, and Mr. Corrigan spoke with Warren Buffet of Salomon Brothers.

Dennis Foreman, Deputy General Counsel, participated in some of the preceding calls and also spoke individually with Mr. Buffet, Mr. Bell and Don Feuerstein, Chief Legal Counsel of Salomon Brothers. Mr. Bowman spoke with Mr. Breeden, and Mr. Bowman and Ms. Rutledge spoke with William McLucas of the SEC and a representative of the Justice Department.

The Treasury Department announced that it would not, for an indeterminate time, allow Salomon Brothers to participate in Treasury auctions. This penalty was modified later in the day, following actions taken by Salomon Brothers' board of Directors, to allow Salomon Brothers to bid in auctions for its own account but not on behalf of its customers.