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September 22, 1999

Cynthia L. Johnson
Director, Cash Management Policy and Planning Division
Financial Management Service, Room 420
401 14th Street, SW
Washington, DC 20227

Re: Docket No. 99-19564 – Proposed Revision of Regulations Governing the Treasury Tax and Loan program – Federal Register: July 30, 1999 (Volume 64, Number 146)

Dear Ms. Johnson,

As an active Treasury Tax & Loan ("TT&L") participant BankBoston N.A ("BKB") is pleased to comment on the proposed TT&L note balance interest rate calculation change. If the current proposal were adopted by the Department of Treasury ("Treasury"), BKB would drastically reduce if not eliminate its participation in the TT&L program. Under the current system, the participating depository institutions provide the Treasury with the flexibility to adjust balances daily. Depository institutions are in effect compensated by the current rate calculation, Federal funds rate less 25 basis points, due to increased market risk resulting from day to day changes in the TT&L balances. Without this incentive, BKB would reduce or eliminate its participation in the TT&L program.

BKB believes the proposal to change the interest rate calculation would also reduce the overall participation in the TT&L program, thereby reducing the systemwide maximum capacity. The reduction in TT&L's capacity may impact monetary policy particularly during peak times on and around tax payment deadlines. The New York Federal Reserve Bank ("Fed") would be forced to increase their daily open market operations in order to avoid a drain in market liquidity. A substantial increase in open market operations may result in the Fed having difficulty fully executing its intended operations.

Additionally, the use of a proposed overnight repo rate would create measurement and historical relationship issues since the current proposal does not detail the calculation criteria, nor is there any historical data from which to compare the overnight repo rate versus the Federal funds rate.

In summary, BKB favors rejecting the proposal to change the TT&L rate calculation. We feel the proposal would reduce banks' incentive to participate in the TT&L program resulting in increased systemic liquidity risk due to a loss of flexibility by the Fed.

Please feel free to call if you have additional question regarding our response to the Treasury proposal. I can be reached at 617-434-4910.

Sincerely,

Craig Starble
Managing Director, Global Funding