UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

UNITED STATES OF AMERICA, Plaintiff, -against- CERTAIN PROPERTY OWNED BY SALOMON BROTHERS INC, Defendant, SALOMON BROTHERS INC, Real Party in Interest.	Civil Action No. 92 CIV. 3700 Filed: May 20, 1992

COMPLAINT

The United States of America, plaintiff, by its attorneys, acting under the direction of the Attorney General of the United States, brings this civil action to obtain forfeiture of certain property owned pursuant to a conspiracy in restraint of trade, and complains and alleges as follows:

I.

JURISDICTION AND VENUE

1. This complaint is filed and this action is instituted under Section 6 of the Sherman Act, 15 U.S.C. § 6, as amended, to obtain forfeiture of certain property owned pursuant to a conspiracy in restraint of trade, in violation of Section 1 of the Sherman Act, 15 U.S.C. § 1, as amended.

2. Defendant property consists of certain monies owned by Salomon Brothers Inc. Defendant property resides in bank accounts in the Southern District of New York that are owned and controlled by Salomon Brothers Inc.

3. This Court has jurisdiction over the defendant property by virtue of 28 U.S.C. §§ 1345 and 1355. Venue exists in this Court pursuant to 28 U.S.C. § 1395(b).

II.

DEFINITIONS

4. As used herein, the term:

(a) "FedWire" means the electronic link connecting the Federal Reserve offices, the United States Treasury, other government agencies, and depository institutions, that is typically used to transfer large dollar payments and book-entry securities from one institution to another.

(b) "Financing market" means the market for financing transactions for Treasury securities.

(c) "Financing transaction" means any transaction whereby the owner or possessor of a Treasury security obtains cash or credit from another person by using the security as collateral, and includes repo transactions and special repo transactions.

(d) "Issue" means a particular Treasury security, as distinguished from all others by its CUSIP number.

(e) "Leveraging" is the practice of borrowing money in order to buy a Treasury security. A person who engages in leveraging is said to be "leveraged." Most leveraging in Treasury securities is done through repo transactions.

(f) "May two-year notes" means the Treasury securities maturing on May 31, 1993 that were sold at auction on May 22, 1991.

(g) "Person" means any individual, partnership, firm, corporation, association, or other business or legal entity.

(h) "Repo transaction" means any transaction pursuant to which possession of, or security interest in, Treasury securities is transferred by one party to another with a simultaneous agreement that the second party will later return the securities to the first party, and includes:

  (i) a repurchase agreement ("repo");

  (ii) a reverse repurchase agreement ("reverse repo"); and

  (iii) a borrow vs. pledge.

(i) "Secondary market" means the market for purchase and sale of Treasury securities between the settlement date of the auctioned Treasury security and the date of maturity for the particular security.

(j) "Size," when used in reference to an issue, means the sum of all securities of the issue that have been issued at any time by the Treasury prior to the date of determination.

(k) "Thirty-five percent rule" means the rule initially promulgated by the United States Department of the Treasury ("Treasury") in 1981 and most recently amended in 1990 that limits to 35% of the issue the quantity of any Treasury security that the Treasury will recognize bids at any one yield level for, or will award to, a single person at a Treasury auction.

(l) "Treasury security" means any United States Treasury bill, note or bond.

(m) "When-issued market" means the electronic market in a specific Treasury security that commences when the Treasury announces an auction (usually about one week prior to the auction). Through the when-issued market, persons who wish to buy a specific security ("go long") prior to the auction may obtain commitments from others, often primary dealers, who are willing to sell the security ("go short"), that is, commit to deliver the security to the buyer once it is issued by the Treasury. Trading in the when-issued market ends on the auction settlement date. On settlement day, the auctioned security is issued against payment in settlement of the auction purchase.

Use of either the singular or plural should not be deemed a limitation and the use of the singular should be construed to include, where applicable, the plural and vice versa.

III.

DEFENDANT

5. This is an *in rem* proceeding against certain property ("defendant property") in bank accounts owned and controlled by Salomon Brothers Inc ("Salomon") within the Southern District of New York. Salomon is the real party in interest in relations to the defendant property. Salomon is a corporation organized and doing business under the laws of the State of Delaware, with its principal place of business in New York, New York.

6. Whenever this complaint refers to any act, deed, or transaction of any person which is not a natural person, it means that such person engaged in such act, deed, or transaction by or through its officers, directors, agents, employees, partners, or other representatives while they were actively engaged in the management, direction, control, or transaction of its business or affairs.

IV.

CO-CONSPIRATORS

7. Various persons, not made defendants herein, have participated as co-conspirators in the violation alleged in this complaint, and have performed acts and made statements in furtherance thereof.

V.

INTERSTATE TRADE AND COMMERCE

8. The Treasury finances the debt of the United States Government by issuing Treasury securities.

9. The Treasury issues Treasury securities to successful bidders for such securities at auctions conducted by and through the Federal Reserve System. Sometime (usually one week) before the auction of a particular Treasury note issue, the Treasury announces the size of the issue to be auctioned. Trading in the when-issued market for that issue begins immediately thereafter, and continues until the day, generally one week after the auction, when the Treasury settles with successful bidders, transmitting to them, directly or indirectly, the new issue via the FedWire in exchange for payment. After settlement, trading in the issue continues in the secondary market until the maturity date.

10. In a when-issued trade, the seller agrees to deliver a certain number of Treasury securities of a given issue to the buyer on the auction settlement day. The seller is said to be "short" the issue, and the buyer "long." On the auction settlement day, the buyer must pay for its purchase; conversely, the seller must deliver the securities it is short. The seller may obtain the securities it is required to deliver either by purchasing them (through the auction, in a when-issued or secondary market trade) or by borrowing them in the financing market, generally through a repo transaction, and delivering the purchased or borrowed securities to the buyer.

11. Leveraged purchasers of Treasury securities, including Salomon, often rely on repo transactions to finance their purchases -- with the Treasury securities serving, in effect, as collateral for a loan. When there is no "specific" demand for the issue a buyer owns, the buyer will borrow the cash it needs to finance its position at the "general collateral rate." When there is a specific demand for an issue because short sellers need to borrow the issue in order to deliver it to persons who have bought the security, buyers can lend the issue in exchange for cash at a "special rate." The issue is said to be "on special" when the interest rate owners pay to borrow cash against the issue is significantly lower than the general collateral rate. The lower the rate at which an owner finances its position in an issue, the lower its financing costs and the greater its potential profit on its position.

12. When it is long a particular issue, Salomon competes with other persons who are long the same issue in the financing market to finance its position in that issue. Salomon also competes with others in the when-issued and secondary markets to purchase or sell issues of Treasury securities.

13. In or about June, 1991, Salomon and its co-conspirators formulated a scheme to restrain trade in May two-year notes by coordinating their activities with respect to the issue in the financing and secondary markets.

14. On May 31, 1991, the Treasury issued $12.255 billion of May two-year notes to the successful bidders at the auction

on May 22, 1991. The May two-year notes were transmitted in interstate commerce via the FedWire to the successful bidders.

15. As a result of purchases at the auction and in the when-issued market, Salomon and its co-conspirators acquired substantial positions in the May two-year notes. During June and part of July, 1991, Salomon and one or more co-conspirators controlled essentially 100% of the lendable securities of the issue (that portion of the issue sold on competitive tenders plus long positions) potentially available to satisfy the obligations of other persons who had sold short the May two-year notes in when-issued trading.

16. During June and part of July, 1991, May two-year notes traded on special at a substantial discount from the general collateral rate. During that time, Salomon and its co-conspirators coordinated their efforts to limit the supply of May two-year notes available in the secondary and financing markets, thereby ensuring that persons who had sold the issue short in the when-issued market could obtain May two-year notes only by purchasing them at artificially high and non-competitive prices in the secondary market or by borrowing them in exchange for cash on which they received artificially low and non-competitive special rates in financing transactions in the financing market.

17. During June and July, 1991, the May two-year notes owned by Salomon and its co-conspirators were transmitted via the FedWire for settlement purposes related to financing and secondary market transactions. Monies related to

such trading activities were transmitted in interstate commerce via the FedWire and now reside in bank accounts in the Southern District of New York that are owned and controlled by Salomon. Salomon and its co-conspirators used the telephone network and other interstate facilities to carry out the offense alleged.

18. The activities of Salomon and its co-conspirators, as alleged in this complaint, were within the flow of, and substantially affected, interstate commerce.

VI.

VIOLATION ALLEGED

19. Beginning in or about June 1991, and continuing at least into July 1991, Salomon and its co-conspirators engaged in a combination and conspiracy in unreasonable restraint of interstate trade and commerce in violation of Section 1 of the Sherman Act.

20. The combination and conspiracy consisted of an agreement, understanding, and concert of action among Salomon and co-conspirators, the substantial term of which was to coordinate actions with respect to trading the May two-year notes, with the purpose and effect of affecting the price of the notes in the secondary market and the interest rate paid by some persons that lent the May two-year notes and borrowed cash.

21. In furtherance of this combination and conspiracy, Salomon and its co-conspirators combined and conspired to do those things which they intended to do, including, among other things:

(a) agreeing to coordinate their actions with respect to the sale of May two-year notes in the secondary market; and

(b) agreeing to coordinate their actions with respect to the conditions upon which their May two-year notes would be available for financing transactions.

VII.

EFFECTS

22. The combination and conspiracy has had, among other things, the following effects:

(a) Persons who sold the May two-year notes short were denied the benefits of free and open competition in the secondary and financing markets, resulting in artificial and non-competitive prices and interest rates for the notes; and

(b) Price and interest rate competition for May two-year notes was unreasonably restrained in the secondary and financing markets.

23. The aforesaid combination and conspiracy has affected a substantial amount of interstate commerce.

PRAYER

WHEREFORE, PLAINTIFF PRAYS:

1. That the alleged combination and conspiracy in unreasonable restraint of interstate trade and commerce be

adjudged and decreed to be in violation of Section 1 of the Sherman Act (15 U.S.C. § 1).

2. That the Court order that $27,500,000.00 residing in bank accounts in the Southern District of New York that are owned and controlled by Salomon be forfeited to the United States Department of Justice.

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