

Second OECD – China Forum  
Public Debt Management and  
Government Securities Markets  
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# Presentation Overview

- Role of U.S. Treasury as Issuer and Regulator
- Primary and Secondary Market Authority
- Treasury Marketable Securities Auctions
- Uniform Offering Circular (UOC)
- Government Securities Act Amendments of 1993
- Treasury's Large Position Rules

# U.S. Government Securities Market Regulatory Overview

- Primary Market
  - Broad Authority for Original Issuance of Treasury Securities
  - Uniform Offering Circular (Auction Rules)
- Secondary Market
  - Government Securities Act of 1986
  - Government Securities Act Amendments of 1993

# Broad Objectives

- Maintain integrity, liquidity, and efficiency of the government securities market
- Issue regulatory amendments that are consistent with appropriate authorities and statutes
- Look for opportunities to simplify, streamline and/or reduce regulatory requirements of market participants
- Foster transparency and effective working relationships through interagency coordination and consultation

# Treasury Auctions: Primary Market

- Specifics of an auction are in the offering announcement
- When-issued Trading
- 35% Award Limit, Net Long Position Reporting
- Secretary has right to accept/reject bids and to award more/less securities than announced
- Consolidated set of rules, terms and conditions

# Marketable Securities

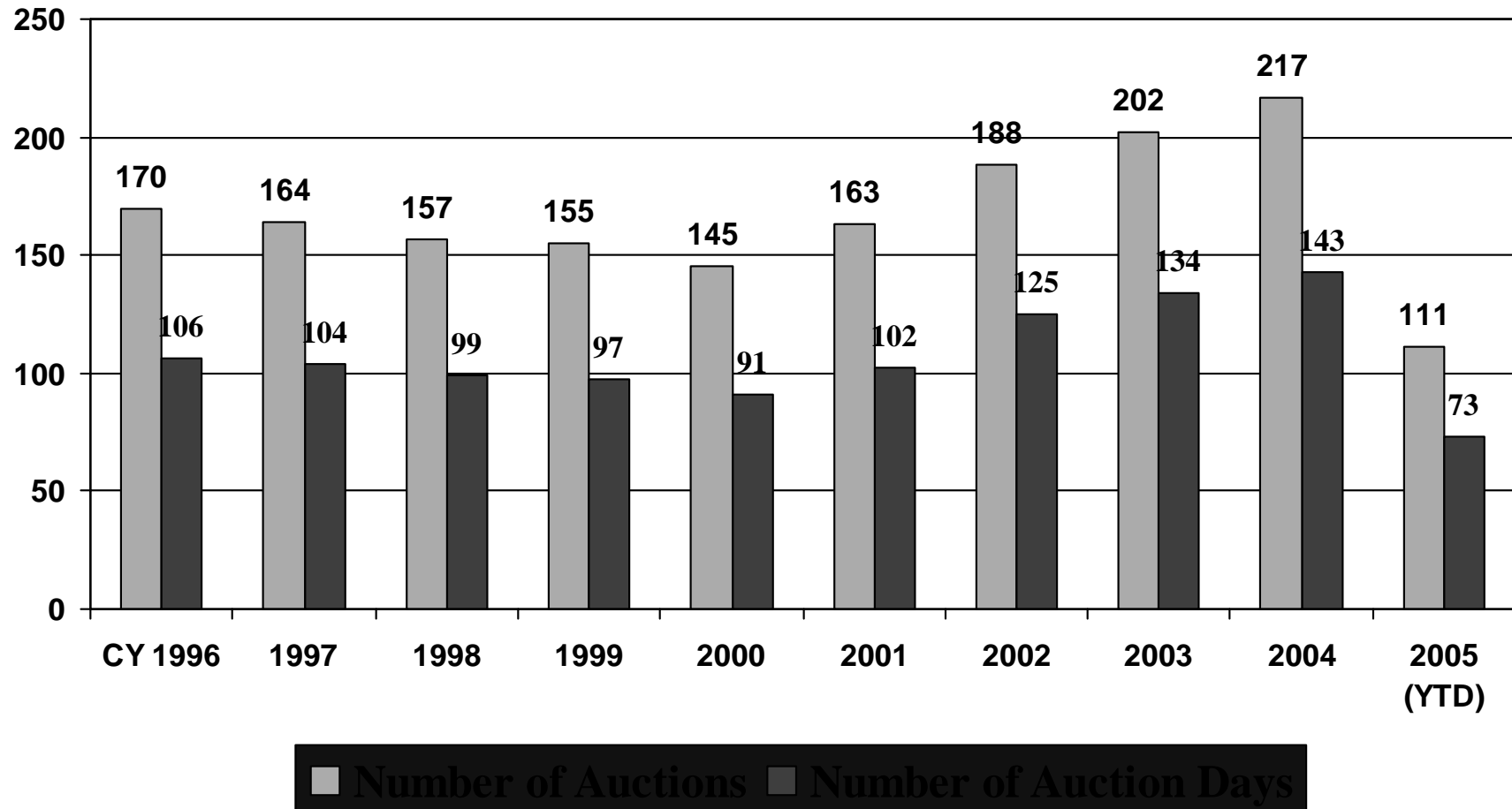
## Treasury Bills, Notes, Bonds and TIPS

- Pricing benchmark
- High demand
- Low risk
- Highly liquid
- Backed by the full faith and credit of the U.S. Government

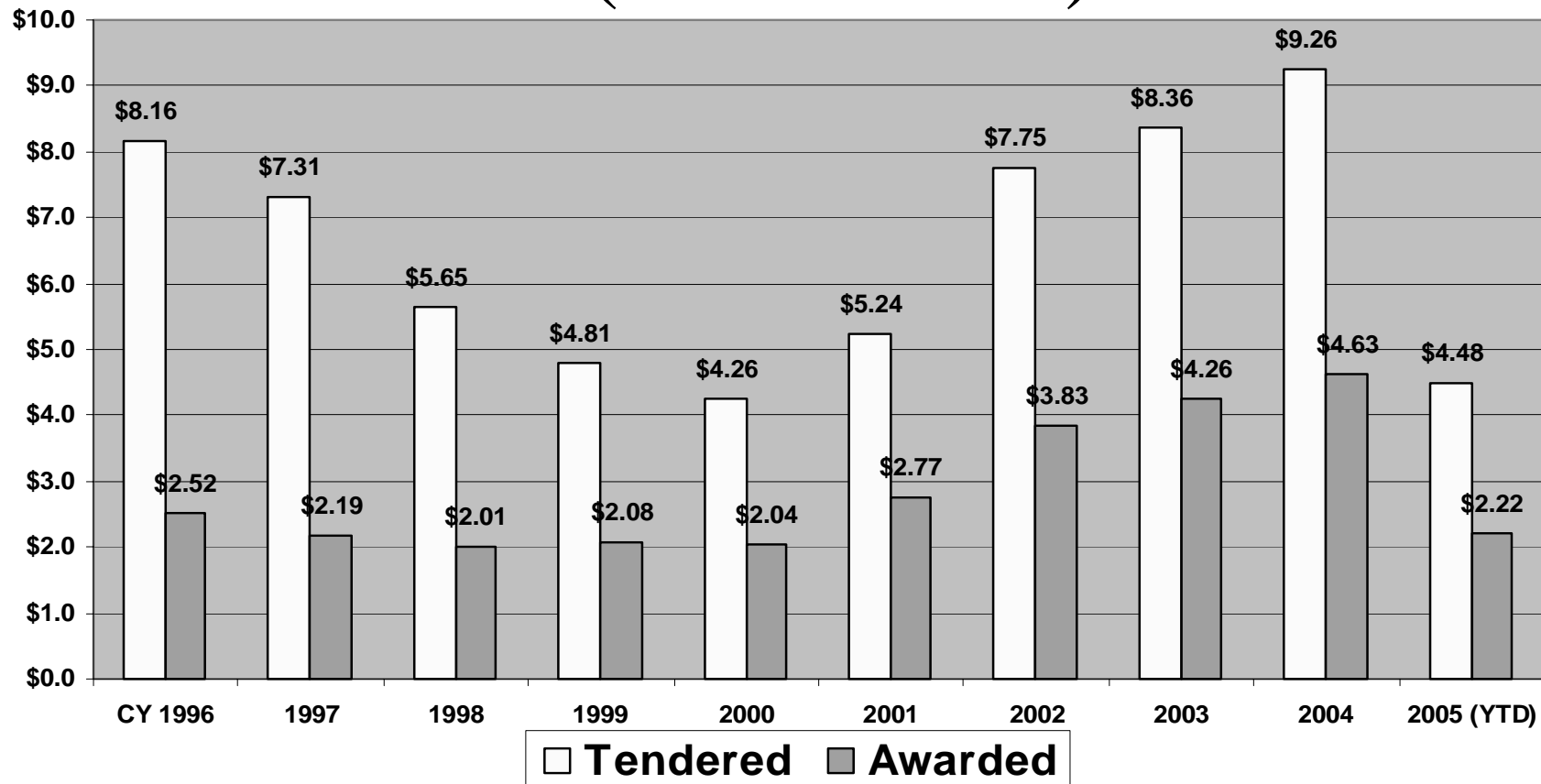
# Pattern of Financing

- 4-week Bills Every Week
- 13- & 26-week Bills Every Week
- 2-year Notes Every Month
- 3-year Notes Feb, May, Aug, Nov
- 5-year Notes Every Month
- 10-year Notes Feb, Mar, May, June, Aug, Sep, Nov, Dec
- 5-year TIPS Apr, Oct
- 10-year TIPS Jan, Apr, July, Oct
- 20-year TIPS Jan, July
- Cash Management Bills (CMB) As Necessary

# Treasury Auctions



# Amount Tendered in Auctions (in trillions)



# Treasury Auctions

## Life of a 2-Year Note

	Day	Time	Description of Activity
<b>Announcement</b>	Friday	2-3:30 pm	Begin Preparing Announcement
<b>Process</b>	Monday	9-10:00 am	Main Treasury Decision on Offering Amount
	Monday	10-10:30 am	Finalize Announcement
	Monday	10:30 am	Fax copy to Press room
	Monday	10:45 am	Issue Activation
	Monday	11:00 am	Release to Public
	Monday	11:02 am	Download issue information
	Monday	11:05 am	Enter issue information into AIC
	Monday	11:05 am	Enter issue information into TreasuryDirect
	Monday	11:05 am	Email sent announcing security
<b>Auction</b>	Monday	After 11:00 a.m.	Tenders start arriving
<b>Process</b>	Wednesday	11:30 am	Start the Auction Process
	Wednesday	11:30 am	Start tender review process
	Wednesday	12:00 noon	Noncompetitive Close
	Wednesday	1:00 pm	Competitive Close
	Wednesday	1:00 pm	Calculate Results
	Wednesday	1:01 pm	Review and Approve results
	Wednesday	1:01 pm	Copy text file to OIT's TARPA
	Wednesday	1:01 pm	Publish results in XML format
	Wednesday	1:01 pm	Place results on PD Website
	Wednesday	1:01 pm	Post results to TLv1
	Wednesday	1:02 pm	High-low sent to press room
	Wednesday	1:02 pm	Email sent to auction results mailing list
	Wednesday	1:10 pm	Results entered into AIC
	Wednesday	1:10 pm	Results entered into <i>TreasuryDirect</i>
	Wednesday	1:17 p.m.	Award Notices sent
	Wednesday	1:17 pm	DI Notifications sent
	Wednesday	1:17 pm	File Sent to Clearing Corp.
	Wednesday	4:00 pm	Allotment Reporting to OPDA
	Wednesday	To close	Continue tender perfection and compliance review
<b>Issue</b>	Wednesday	3:00 pm	Issue File created
<b>Process</b>	Thursday	8:30 am	Payment of Maturing Securities
	Thursday	9:15 am	OI Wires sent to successful submitters
	Thursday	9:15 am	Accounting in FRB IAS
	Thursday	9:15 am	Undeliverable wires, if any
	Friday	Morning	Allotment reporting to OPDA

# TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

EMBARGOED UNTIL 9:00 A.M.  
November 19, 2004

CONTACT: Office of Financing  
202/504-3550

## TREASURY OFFERS 2-YEAR NOTES

The Treasury will auction \$24,000 million of 2-year notes to refund \$26,827 million of publicly held notes maturing November 30, 2004, and to pay down approximately \$2,827 million. The announcement of this offering, originally scheduled for November 18, 2004, was postponed on that date.

In addition to the public holdings, Federal Reserve Banks hold \$6,044 million of the maturing notes for their own accounts, which may be refunded by issuing an additional amount of the new security.

Up to \$1,000 million in noncompetitive bids from Foreign and International Monetary Authority (FIMA) accounts bidding through the Federal Reserve Bank of New York will be included within the offering amount of the auction. These noncompetitive bids will have a limit of \$100 million per account and will be accepted in the order of smallest to largest, up to the aggregate award limit of \$1,000 million.

TreasuryDirect customers requested that we reinvest their maturing holdings of approximately \$413 million into the 2-year note.

The auction will be conducted in the single-price auction format. All competitive and noncompetitive awards will be at the highest yield of accepted competitive tenders. The allocation percentage applied to bids awarded at the highest yield will be rounded up to the next hundredth of a whole percentage point, e.g., 17.13%.

The notes being offered today are eligible for the STRIPS program.

This offering of Treasury securities is governed by the terms and conditions set forth in the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (31 CFR Part 356, as amended).

Details about the new security are given in the attached offering highlights.

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Attachment

HIGHLIGHTS OF TREASURY OFFERING TO THE PUBLIC OF  
2-YEAR NOTES TO BE ISSUED NOVEMBER 30, 2004

November 19, 2004

Offering Amount .....\$24,000 million  
Maximum Award (35% of Offering Amount) .....\$ 8,400 million  
Maximum Recognized Bid at a Single Yield.....\$ 8,400 million  
NLP Reporting Threshold.....\$ 8,400 million

Description of Offering:

Term and type of security .....2-year notes  
Series .....V-2006  
CUSIP number .....912828 DD 9  
Auction date .....November 23, 2004  
Issue date .....November 30, 2004  
Dated date .....November 30, 2004  
Maturity date .....November 30, 2006  
Interest rate .....Determined based on the highest  
accepted competitive bid  
Yield .....Determined at auction  
Interest payment dates .....May 31 and November 30  
Minimum bid amount and multiples .....\$1,000  
Accrued interest payable by investor .....None  
Premium or discount .....Determined at auction

STRIPS Information:

Minimum amount required .....\$1,000  
Corpus CUSIP number .....912820 LA 3  
Due date(s) and CUSIP number(s)  
for additional TINT(s) .....November 30, 2006 - - 912833 3P 3

Submission of Bids:

Noncompetitive bids:

Accepted in full up to \$5 million at the highest accepted yield.

Foreign and International Monetary Authority (FIMA) bids: Noncompetitive bids  
submitted through the Federal Reserve Banks as agents for FIMA accounts.

Accepted in order of size from smallest to largest with no more than \$100  
million awarded per account. The total noncompetitive amount awarded to Federal  
Reserve Banks as agents for FIMA accounts will not exceed \$1,000 million. A  
single bid that would cause the limit to be exceeded will be partially accepted  
in the amount that brings the aggregate award total to the \$1,000 million limit.  
However, if there are two or more bids of equal amounts that would cause the  
limit to be exceeded, each will be prorated to avoid exceeding the limit.

Competitive bids:

- (1) Must be expressed as a yield with three decimals, e.g., 7.123%.
- (2) Net long position (NLP) for each bidder must be reported when the sum of the  
total bid amount, at all yields, and the net long position equals or exceeds the  
NLP reporting threshold stated above.
- (3) Net long position must be determined as of one-half hour prior to the  
closing time for receipt of competitive tenders.

# Basic Auction Concepts

- Single-Price Auction Format
  - All securities are awarded at the same price
- Noncompetitive Bidding
  - Par only bid
  - No rate/yield
  - Maximum \$5 million
  - Award assured
- Competitive Bidding
  - Requires par & rate/yield
  - Maximum 35% of offering
  - Competing for securities
- Can only bid noncompetitively or competitively

# PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC 20239



## TREASURY SECURITY AUCTION RESULTS BUREAU OF THE PUBLIC DEBT - WASHINGTON DC

FOR IMMEDIATE RELEASE  
November 23, 2004

CONTACT: Office of Financing  
202-504-3550

### RESULTS OF TREASURY'S AUCTION OF 2-YEAR NOTES

Interest Rate: 2 7/8%                      Issue Date:            November 30, 2004  
Series:                                        V-2006                      Dated Date:           November 30, 2004  
CUSIP No:                                    912828DD9                Maturity Date:        November 30, 2006

High Yield: 2.945%            Price: 99.865006

All noncompetitive and successful competitive bidders were awarded securities at the high yield. Tenders at the high yield were allotted 98.56%. All tenders at lower yields were accepted in full.

### AMOUNTS TENDERED AND ACCEPTED (in thousands)

Tender Type	Tendered	Accepted
-----	-----	-----
Competitive	\$ 61,843,662	\$ 23,258,974
Noncompetitive	741,031	741,031
FIMA (noncompetitive)	0	0
-----	-----	-----
SUBTOTAL	62,584,693	24,000,005 1/
Federal Reserve	6,043,933	6,043,933
-----	-----	-----
TOTAL	\$ 68,628,626	\$ 30,043,938

Median yield 2.930%: 50% of the amount of accepted competitive tenders was tendered at or below that rate. Low yield 2.900%: 5% of the amount of accepted competitive tenders was tendered at or below that rate.

Bid-to-Cover Ratio = 62,584,693 / 24,000,005 = 2.61

1/ Awards to TREASURY DIRECT = \$553,832,000

# Uniform Offering Circular

- Complete Set of Auction Terms and Conditions  
31 CFR Part 356
- Combined with Specific Offering Announcement
- Discussion of Proposed Changes
  - Treasury Borrowing Advisory Committee
  - Publication of Proposed Rule Changes in the Federal Register
  - Public Comment
- Publication in “Plain Language” July 2004
- Communications with Auction Participants
- Delayed Effective Date for Changes

# Events – Early 1990s

- 1990 and 1991– Certain disruptions and bidding improprieties
- Salomon Brothers bidding scandal
- Treasury's GSA rulemaking authority lapsed for 2 years (1991-1993)

# Government Securities Act Amendments (GSAA) of 1993

- Treasury's rulemaking authority made permanent
- Treasury granted Large Position Reporting authority
- Sales practice rules to SROs

# Large Position Rules

- GSAA gave Treasury authority to adopt rules for any persons or entities holding, maintaining or controlling large positions in to-be-issued or recently issued Treasury securities to maintain records and file reports.

# Large Position Rules

- Final Rules issued on September 12, 1996  
(effective March 31, 1997)  
**17 CFR Part 420**
- Improve the information available to  
Treasury/other regulators re: pricing anomalies,  
concentrations of control and market shortages

# Scope of Rules

- Rules apply to ALL persons (except certain foreign official entities) controlling large positions, including hedge funds, pension funds, insurance companies and other investment entities.
- Rules cover only Treasury securities, and only a small number of recently-issued bills, notes and bonds.

# Scope of Rules

## Rules **DO NOT**:

- Imply that a large position is inherently harmful
- Establish trading or position limits
- Require identification of individual traders
- Require reporting of large trades
- Require automatic reporting

# Broad Goals

- Regulatory –Transparent and Inclusive Process
- Fair and Level Playing Field
- Federal Notice of Published Rules
  - Advanced Notice of Proposed Rulemaking
  - Final Notice
- Communication and Coordination with Regulatory Authorities (e.g. SEC, Federal Reserve, SROs, ARAs)
- Communication with Market Participants

# For Additional Information

- U.S. Department of the Treasury
  - <http://www.ustreas.gov/>
- Bureau of the Public Debt
  - <http://www.publicdebt.treas.gov/>
- Federal Reserve Bank of New York
  - <http://www.newyorkfed.org/>
- E-mail Contact
  - Govsecreg@bpd.treas.gov