

Treasury's Auction Rules

U.S. DEPARTMENT OF THE TREASURY
BUREAU OF THE FISCAL SERVICE

GOVERNMENT SECURITIES REGULATIONS STAFF
WHOLESALE SECURITIES SERVICES



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Treasury's Auction Rules

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Agenda

- Review of Treasury's Auction Rules
- Operational Tips

Auction Rules (31 CFR Part 356)

- 31 CFR Part 356 Uniform Offering Circular (UOC)
- Auction rules can be found on Fiscal Service's website:
[TreasuryDirect.gov](https://www.treasurydirect.gov)
- The UOC and the auction announcement specify the terms and conditions of a securities offering
 - If anything in the auction announcement differs from the UOC, the auction announcement will control

Bidder (§ 356.2)

- A person or entity that offers to purchase Treasury securities in an auction either directly or through a depository institution or dealer
 - Bidders range from individuals to complex corporate structures
 - Bidder is further defined in Appendix A of the auction rules
- Separate bidder recognition — Treasury may recognize a “major organizational component” in a corporate or partnership structure as a bidder separate from the larger corporate or partnership structure
 - Process for requesting separate bidder recognition found in Appendix A of the auction rules

Separate Bidder Recognition (Appendix A)

- How to obtain separate bidder recognition
 - Component must request it from Treasury Wholesale Securities Services
 - Describe the component and its position in the corporate or partnership structure
 - Provide the required certification
- Criteria
 - Cannot exchange information about bidding in Treasury auctions with any other components
 - Component cannot be created to circumvent bidding and award limitations
 - Decisions about auction participation must be made by employees of the component
 - Component must maintain separate records from other components about bidding for, acquiring, and disposing of Treasury securities

Submitter (§ 356.2)

- A person or entity submitting bids directly into the Treasury Automated Auction Processing System (TAAPS) for its own account, for customer accounts, or both
- Only depository institutions and dealers may submit bids for customers
- We permit investment advisers to submit bids on behalf of controlled accounts

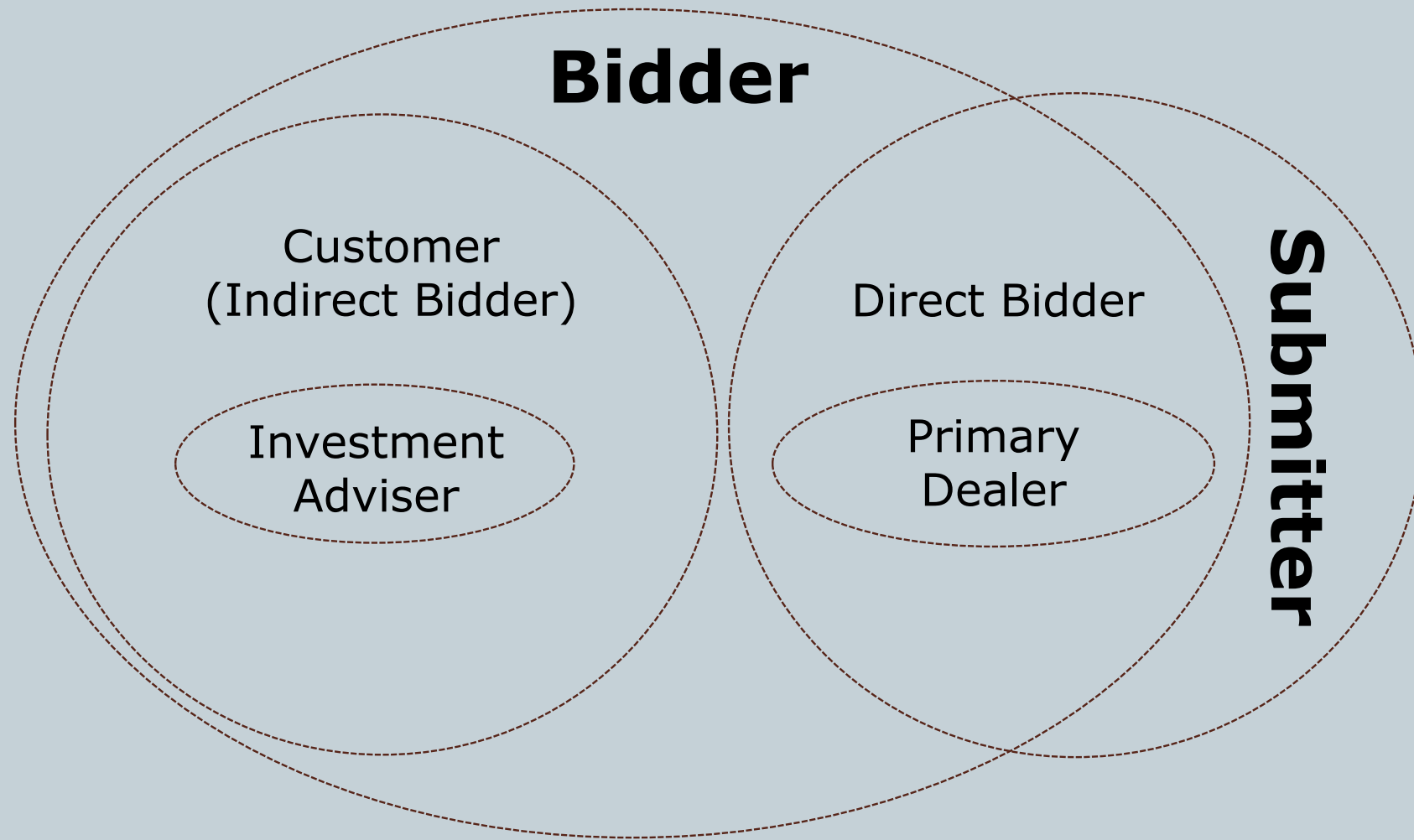
Customer (§ 356.2)

- A bidder that directs a depository institution or dealer to submit or forward a bid for a specific amount of securities in a specific auction on the bidder's behalf
- Names must be provided on bids or a customer list
- Customer Confirmation — applies to customers awarded \$2 billion or more (§ 356.24(d))

Investment Adviser (§ 356.15)

- Any person or entity that has investment discretion for the bids or positions of a different person or entity (controlled account)
 - Investment discretion includes determining what, how many, and when securities will be purchased or sold on behalf of another person or entity
- Investment advisers may bid for accounts they control either in the adviser's name or in the name of the controlled account
- Investment adviser must combine its proprietary bids and positions with all other competitive bids and positions it controls when calculating its net long position

Auction Participants



Noncompetitive Bids (§ 356.12(b))

- Noncompetitive bids — only require a dollar amount
 - The noncompetitive bid limit is \$10 million (\$100 minimum and multiples)
 - If an investment adviser is bidding in the name of the controlled account, it can bid up to the noncompetitive maximum for each controlled account, but must provide the names
- Cannot bid noncompetitively if you are also bidding competitively, or if you have a when-issued, futures, or forward position in the security being auctioned
- The noncompetitive bidding deadline is stated in the auction announcement
 - For bills and FRNs the noncompetitive bidding deadline is usually 11:00 a.m. ET, one half hour before the competitive bidding deadline
 - For notes, bonds, and TIPS the noncompetitive bidding deadline is usually noon, one hour before the competitive bidding deadline

Competitive Bids (§ 356.12(c))

- Competitive bids — require desired rate, yield, or discount margin and a dollar amount
- Bills — must show the discount rate bid to three decimals in .005 percent increments (the third decimal must be either a zero or a five, e.g. 3.100, or 3.105%)
 - Discount rate may be positive or zero
- Notes, Bonds, TIPS, & FRNs — must show the yield, real yield, or discount margin bid expressed to three decimals (the third decimal can be 0-9, e.g. 3.123%)
 - Notes & Bonds – yield may be positive or zero
 - TIPS – real yield may be positive, zero, or negative
 - FRNs – discount margin may be positive, zero, or negative
- Competitive bids are submitted via TAAPS. Competitive bidding is not allowed in the TreasuryDirect system
- A bidder cannot bid both noncompetitively and competitively in the same Treasury securities auction

Certifications (§ 356.16)

- Bidders and submitters are deemed to have certified that they are:
 - In compliance with the auction rules and the auction announcement
 - Providing accurate and complete information

35% Recognized Bid Limit

- Maximum recognized bid at a single rate (§ 356.12 (c)(2))
 - A competitive bid at a single yield, discount rate, or discount margin that exceeds 35% of the offering amount will be reduced to the 35% limit
 - ✦ Example: Offering amount is \$20 billion, 35% maximum bid amount recognized is \$7 billion
 - The maximum recognized bid amount is stated in each auction announcement

35% Award Limit

- Maximum award to competitive bidders (§ 356.22(b))
 - Maximum award to any bidder is 35% of the offering amount less the bidder's net long position (NLP) as reported under § 356.13
 - Example: Offering amount is \$20 billion, 35% maximum award limit is \$7 billion; a bidder's NLP is \$2 billion; the maximum award for that bidder is \$5 billion
 - Actual 35% maximum award limit is stated in each auction announcement

Net Long Position Reporting (§ 356.13(c))

- The NLP is comprised of the total sum of the par amounts of:
 - Holdings of
 - ✦ The same CUSIP as the security being auctioned
 - ✦ STRIPS principal components of the security being auctioned
 - Positions in the security being auctioned in:
 - ✦ When-issued trading (including when-issued trading positions of the STRIPS principal components)
 - ✦ Futures contracts requiring delivery of the specific security being auctioned (e.g., Single Treasury Futures)
 - ✦ Forward contracts requiring delivery of the specific security being auctioned or of the STRIPS principal component of that security

When to Report NLP (§ 356.13(a))

If . . .

(i) the total of your bids and your net long position in the security equals or exceeds the reporting threshold.

And if . . .

Then . . .

you must report your net long position (which does not include your bids).

(ii) the total of your bids in the auction equals or exceeds the reporting threshold.

you have no position
or a net short position

you must report a zero.

(iii) the total of your bids and your net long position in the security is less than the reporting threshold

you may either report nothing (leave the field blank) or report your net long position.

The NLP threshold is stated in the auction announcement. Typically, it is 35% of the offering amount, but we may state a different threshold in the announcement, so **read the announcement**

When to Report NLP (§ 356.13(a))

- “As of” calculation time:
 - One half-hour prior to competitive bidding deadline (§ 356.13(b))
- If you have more than one bid in an auction and you must report either your NLP or a zero, then only report that figure once
- If you are a customer and you must report either your NLP or a zero, then report that figure through only one depository institution or dealer

Optional Exclusion (§ 356.13(d))

- In a reopening (additional issue) of an outstanding security, you may subtract the exclusion amount stated in offering announcement from:
 - Holdings of the outstanding security combined with
 - Holdings of STRIPS principal components of the security being auctioned
- If combined holdings are zero or less, then exclusion cannot be taken
- If the exclusion is taken, then any holdings greater than the exclusion amount must be included in calculating the NLP
- If the exclusion amount is greater than combined holdings, then combined holdings can be calculated as zero, but cannot be included in the calculation as a negative number

Example of a Reopening

Treasury announces reopening of a 10 Year Note	(amounts)
Previously issued (amount outstanding)	\$15 billion
Reopening Offering Amount	\$10 billion
NLP Exclusion Amount	\$5.25 billion
35% Award Limit	\$3.5 billion
NLP Reporting Threshold	\$3.5 billion

Example of Exclusion Calculation

- Bidder X:
 - Holdings = \$4 billion of same CUSIP (par amount)
+ \$2.25 billion (STRIPS principal components)
 - Total Holdings = \$6.25 billion
- \$5.25 billion (optional exclusion)
\$1 billion in holdings
 - Positions = \$2 billion (WI trading)
- \$1 billion (holdings) + \$2 billion (WI) = \$3 billion (total NLP)
- The maximum amount Bidder X can be awarded is:
 - \$3.5 billion (35% award limit)
 - \$3 billion (NLP)
 - \$0.5 billion (maximum award)

TREASURY OFFERING ANNOUNCEMENT ¹

Term and Type of Security	28-Day Bill
Security Description	4-Week Bill
Offering Amount	\$50,000,000,000
Currently Outstanding	\$83,036,000,000
CUSIP Number	912796YF0
Auction Date	September 22, 2022
Original Issue Date	June 28, 2022
Issue Date	September 27, 2022
Maturity Date	October 25, 2022
Maximum Award	\$17,500,000,000
Maximum Recognized Bid at a Single Rate	\$17,500,000,000
NLP Reporting Threshold	\$17,500,000,000
NLP Exclusion Amount	\$28,000,000,000
Minimum Bid Amount and Multiples	\$100
Competitive Bid Rate Increments ²	0.005%
Maximum Noncompetitive Award	\$10,000,000
Eligible for Holding in TreasuryDirect [®]	Yes
Estimated Amount of Maturing Bills Held by the Public	\$134,997,000,000
Maturing Date	September 27, 2022
SOMA Holdings Maturing	\$6,421,000,000
SOMA Amounts Included in Offering Amount	No
FIMA Amounts Included in Offering Amount ³	Yes

Determination of Auction Awards (§ 356.20)

- Single-Price Auctions
 - All successful bidders pay the same price regardless of rate, yield, or discount margin they bid
 - Awards are at the price equivalent to the highest accepted rate, yield, or discount margin at which bids are accepted
 - For TIPS, awards are at the price equivalent to the highest accepted real yield

Determination of Auction Awards (§ 356.20)

- Award Process
 - Accept noncompetitive bids first
 - Accept competitive bids at the lowest yield, discount rate, or discount margin up to the amount required to meet offering amount
 - Prorate bids at highest accepted yield, discount rate, or discount margin (§ 356.21) The percent is derived by:

$$\frac{\text{Remaining Par Amount Needed to Fill}}{\text{Par Amount of Bids at High Yield}}$$

* Round up to the next hundredth of a whole percent (e.g., 17.13%)

- Submitters and intermediaries prorate awards to customers that bid at highest accepted yield, discount rate, or discount margin

Sample Auction Calculation

Offering Amount: \$ 10 Billion (In Billions)

Rate	Amount Bid	Amount Awarded	Amount Needed
0.626% (and up)	\$20.0	0.0	0.0
0.625%	2.5	10.0	0.0
0.624%	3.0	9.0	1.0
0.623%	3.0	6.0	4.0
0.622%	0.5	3.0	7.0
0.621%	0.5	2.5	7.5
Noncompetitive	\$2.0	\$2.0	\$8.0

Amount to Accept at 0.625% \$1 Billion/\$2.5 Billion = 40.00%

TREASURY AUCTION RESULTS

Term and Type of Security	28-Day Bill
CUSIP Number	912796YF0

High Rate ¹	2.660%
Allotted at High Price	80.09%
Investment Rate ²	99.793111
	2.703%

Median Rate ³	2.600%
Low Rate ⁴	2.250%

Issue Date	September 27, 2022
Maturity Date	October 25, 2022

	Tendered	Accepted
Competitive	\$139,045,800,000	\$48,097,130,000
Noncompetitive	\$1,540,946,900	\$1,540,946,900
FIMA (Noncompetitive)	\$362,000,000	\$362,000,000
Subtotal ⁵	<u>\$140,948,746,900</u>	<u>\$50,000,076,900⁶</u>

SOMA	\$2,706,169,800	\$2,706,169,800
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Total	<u>\$143,654,916,700</u>	<u>\$52,706,246,700</u>
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	Tendered	Accepted
Primary Dealer ⁷	\$99,585,000,000	\$19,700,000,000
Direct Bidder ⁸	\$1,750,000,000	\$1,100,675,000
Indirect Bidder ⁹	\$37,710,800,000	\$27,296,455,000
Total Competitive	<u>\$139,045,800,000</u>	<u>\$48,097,130,000</u>

Operational Tips

Treasury auction staff review all bids before and after each auction closes

- Bidding incidents typically involve data entry errors or customer bid issues
- Submitters should confirm that customers have provided complete and current information (e.g., full legal name, BIN, complete trust information, etc.)
- Intermediaries must provide their customer's name to the submitter

Operational Tips

Understand affiliations and categories of eligible bidders in Appendix A to Part 356

- Multiple entities may be considered a single bidder even if they have different names and tax identification numbers
- Trusts are only considered a separate bidder if they have an employer identification number (not social security number)

Operational Tips

Submitters:

- Maintain current and accurate TAAPS customer database
- Confirm bidder information is accurate and complete
- For floating rate note (FRN) auctions, a competitive bid must show the discount margin bid, expressed as a percentage with three decimals, for example, 0.290 percent
- Review bids for accuracy before and after submission

Helpful Links

- Bureau of the Fiscal Service ([TreasuryDirect.gov](https://www.treasurydirect.gov))
 - “Laws and Regulations”
 - ✦ [Auction Regulations \(UOC\)](#)
 - Recent Amendments to the Rules
 - Auction Rule Interpretations
 - [Auction and Auction Rule-related electronic mailing lists](#)
 - [Auction Information Handling Guidelines](#)
 - [GSA Regulations](#)
- U.S. Treasury – Domestic Finance
 - [Financial Markets](#)
 - ✦ Debt Management
- FRBNY ([NY.FRB.org](https://www.ny.frb.org))

Contact Information

For questions regarding Treasury's auction rules and interpretations, please contact:

Government Securities Regulations Staff

Phone: 202.504.3632

Email: govsecreg@fiscal.treasury.gov

Website: TreasuryDirect.gov

For questions regarding Treasury auction operations, please contact:

Wholesale Securities Services

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Website: TreasuryDirect.gov