

**FEDERAL RESERVE BANK
OF NEW YORK**

Circular No. 8577
May 23, 1979

TREASURY ANNOUNCES NEW RULES ON SECURITY AUCTIONS

*To All Incorporated Banks and Trust Companies,
and Others Concerned, in the Second Federal Reserve District:*

Following is the text of a statement issued by the Treasury Department:

The Treasury Department announced today [May 14] that it is implementing two new rules concerning its offerings of marketable securities. Decisions on these new rules were reached in conjunction with the joint Treasury/Federal Reserve Board study of futures contracts based on Treasury securities.

First, effective immediately, the maximum award to any single bidder in Treasury security offerings will be limited to 25 percent of the total of the combined amounts of the competitive and the noncompetitive awards to the public. This modifies a previous rule which allowed a single bidder in a Treasury auction to receive as much as 25 percent of the announced amount of the public offering. The new rule excludes from the 25 percent calculation those Treasury securities allotted to the Federal Reserve in exchange for maturing securities held both for its own account and for the accounts of foreign official institutions. It also excludes Treasury securities allotted to the Federal Reserve for new cash tenders on behalf of foreign official institutions.

This new 25 percent rule is needed because the proportion of Treasury bill offerings accounted for by the competitive plus noncompetitive award to the public has declined significantly in recent years. The Treasury Department expects this change to eventually broaden the competitiveness of the auction process and contribute to improved distribution of new securities.

Second, beginning June 18, 1979, the Treasury will require all bidders in its bill auctions to report on the tender form the amount of any net long position in excess of \$200 million in the bills being offered. This information should reflect positions held at the close of business on the day prior to the auction. Such positions would include bills acquired through "when-issued" trading, and futures and forward transactions as well as holdings of outstanding bills with the same maturity date as the new offering, e.g., bills with three months to maturity previously offered as six-month bills. Also, a primary dealer bidding on behalf of a customer will be required to submit a separate tender for the customer whenever the customer's net long position in the bill being offered exceeds \$200 million at the close of business on the day prior to the auction.

This information will be taken into consideration by the Treasury when awarding new bills. The Department's objective is to reduce the potential for undue concentration of ownership in new issues and to contribute to improved distribution. This new reporting requirement recognizes the rapid expansion of trading in Treasury bill futures as well as "when-issued" trading occurring between the offering announcement and the auction date.

Questions regarding the new rules may be directed to our Securities Department (Tel. No. 212-791-5465).

PAUL A. VOLCKER,
President.