



September 4, 2001

Government Securities Regulations Staff  
Bureau of the Public Debt  
999 E. Street N.W. Room 315  
Washington, DC 20239

**Re: Comments on Modification to Auction Rules**

HSBC Securities (USA) Inc.<sup>1</sup> ("HSI") would like to take this opportunity to comment on the proposed modification to the calculation of the net long position and the 35 percent award limit in marketable U.S. Treasury securities auctions.

HSI agrees that there is a need to modify the calculation of the Net Long Position and 35 percent award limit<sup>2</sup> contained in the Department of the Treasury's Uniform Offering Circular (31CFR356). In light of the recent auctions of four week U.S. Treasury Bills, and the now regular five, ten and thirty year re-openings, HSI believes the current rule regarding the maximum competitive auction bid awards to a single bidder is restrictive and no longer achieves the purpose for which the rule was originally intended. Under current rule requirements and calculations a single competitive bidder who holds an outstanding position in a "re-opened security being auctioned" is penalized by the amount of their existing holdings.

The purpose of the 35 percent rule is to provide a mechanism which would allow for equitable and wide distribution of securities to auction participants while at the same time reducing the risks attendant to concentration of ownership. As the Bureau of the Public Debt recognizes, the current application of the 35 percent rule in auctions where the security offered is a reopening reduces participation by single bidders. Consequently the goal of active and wide participation in U.S. Treasury auctions and the concomitant goal of fair and equitable distribution of the securities offered is hindered.

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<sup>1</sup> HSBC Securities (USA) Inc. is a primary dealer in U.S. Treasury and Government Sponsored Enterprise Securities, member of the HSBC Group and a member of NYSE, NASD and SIPC.

<sup>2</sup> A competitive bidder's reportable net long position and successful auction award may not exceed 35 percent of the total amount of the securities offered to the public. In those situations where the total of a bidder's reportable net long position and auction award exceeds 35 percent of the amount offered, the Bureau of the Public Debt reduces the auction award to the bidder by an amount that would bring the total of the bidder's reportable net long position and amount ultimately awarded to equal no more than 35 percent of the amount of the securities offered to the public.

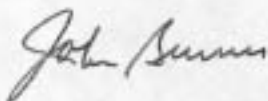
HSI believes the proposed Alternative 1: Optional excludable amount for a portion of a bidder's current holdings provides the means to accomplish the U.S. Department of the Treasury's goals of active and wide participation in U.S. Treasury auctions as well as providing a means for the fair and equitable distribution of the securities offered. Further, HSI believes that Alternative 1 should provide broader auction access to participants and not restrict participants by the amount of their existing holdings of the securities offered.

For these reasons HSI recommends the adoption of Alternative 1: Optional excludable amount for a portion of bidder's current holdings.

HSI is ready to support the U.S. Department of the Treasury, Bureau of the Public Debt adoption of a final Alternative to the application of the 35 percent limit rule.

If you require additional information or have any questions regarding HSI's position on this matter, please contact Pasquale J. Nappo, Senior Vice President, Legal and Compliance Department at (212) 525-5458.

Very truly yours,



John Burrus  
Executive Managing Director

cc: Federal Reserve Board