Deutsche Bank

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Department of the Treasury
Bureau of Public Debt
Government Securities
799 9th Street NW
Washington DC 20220

RE: Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds—Public Input on Design Specifications of the Proposed Treasury Floating Rate Note (FRN) Securities. 31 CFR Part 356 [Docket No. BPD-2012-0002]

Dear Treasury Officials:

Please find Deutsche Bank's comments below in response to the Advanced Notice of Proposed Rulemaking (ANPR) published on December 5, 2012.

Index rate

The reference interest rate should help the Treasury obtain the lowest borrowing cost over time. Between the two index rates under consideration by Treasury, we recommend Treasury floaters reference the three-month Treasury bill rate.

- *Liquidity and transparency.* The Treasury bill market offers liquidity and transparent pricing. The weekly three-month bill auction size is currently above $30 billion. There is depth and liquidity in Treasury bill trading, thanks to broad domestic money market and foreign investor participations. Bill rates have been short term benchmarks for various credit products for the past several decades, and are available through a broad range of public media.
- *Conversion to ACT/360.* We recommend the reference rate be the stop-out rate at the three-month bill auction, converted to an ACT/360 rate.
- *Reset frequency.* We agree with the Treasury in the ANPR that the reference rate would reset daily. However, given the current weekly bill auction schedule, the rate would change once a week. A daily reset provides flexibility in Treasury's future bill auction schedule.

Quarterly interest payments

Quarterly interest payment is a feature consistent with most existing FRNs. Its non-compounding nature is easily understood by investors, and is therefore preferred. Furthermore, quarterly instead of monthly frequency lowers the likelihood that the average reference rate plus a spread between payment dates is negative, thus simplifying the FRN structure.

One business day lock out periods

We support Treasury's recommendation to use a one business day lock-out, provided that it determines market participants can accommodate from a trading and operational standpoint. Currently, most Agency FRNs have longer lock-outs than one day, but the trend has been toward shortening the lock-out period, thanks to technology advancements.

Zero interest rate floor

A zero floor on interest payments should be a feature built into Treasury FRNs. The four-week T-bill (secondary market) rate touched near zero recently around year end. The GCF index has historically experienced brief periods of negative rates, most notably in mid 2011 around the conclusion of Fed's second round of quantitative easing. That said, we think the probability of the floor optionality being close to or in the money is low.

Additionally, interest payment floors on floaters allow market participants to extract certain information about the reference rate (in a similar fashion that the deflation floor on TIPS enables investors to calculate the implied deflation probabilities).

Quarterly auctions with reopening auctions

We recommend FRN quarterly offerings with two reopenings in between new issues. This is the current format Treasury uses for the ten-year note and 30-year bond auctions, and has shown to be effective in enhancing the liquidity for issues with a relatively small size.

We recommend the FRN auctions in the same week as the two-year note, which currently takes place near the end of each month. Auctions of two similar maturity securities in the same week – preferably on the same or on consecutive days – allow market participants to focus on the relative pricing between the securities. This helps investor focus and understand FRNs, especially during their initial stage.

Two-year maturity

Consistent with our recommendation in April 2012, a two-year maturity FRN during the initial issuance phase should appeal to a broad investor base while still provide Treasury reasonable savings over the alternative (fixed-coupon note). Over long term, if Treasury determines that there is sufficient market demand for FRNs, we think issuance of three- and five-year floaters could be appropriate. From the investor standpoint, there is probably demand for longer maturity, such as ten- or even 30-year FRNs from those who believe rates are currently too low and are likely to rise.

Offering amounts

We recommend the size for initial auctions to be around $10 billion, with reopening auction size around $8 billion. Treasury market trading suggests that issues smaller than this size tend to incur material costs associated with liquidity. In general, we prefer having a few large issues with reopening auctions over smaller single issues without reopenings.

Thank you for your consideration. Please don't hesitate to contact Deutsche Bank for our thoughts on FRNs.

Sincerely,

Alex Li
Chief US Treasury and Inflation Strategist
alex-g.li@db.com
(212) 250-5483