NOMURA

NOMURA SECURITIES INTERNATIONAL, INC.
2 World Financial Center, Building B
New York, NY 10281-1198
(212) 667-9300
www.nomura.com

January 22, 2013

Department of the Treasury
Bureau of the Public Debt

Re: Public Input on the Potential Issuance of Treasury Floating Rate Notes

Dear Sir or Madam:

Nomura Securities International, Inc. appreciates the opportunity to comment further on the proposal to issue Treasury Floating Rate Notes (FRNs). We believe floater issuance from the Treasury would be well received in the marketplace over time and serve to lower borrowing cost, manage maturity profile, as well as diversify investor base. Here we provide our thoughts on various aspects of the product.

Index rate: We believe GCF repo index will better serve the Treasury's needs in issuing floaters, in comparison to a 3 month bill auction yields. We believe the daily reset feature will be highly desirable for investors such as money funds and in that regard, we believe the tenor of the underlying benchmark rate should be daily as well, which makes GCF repo a better alternative. GCF repo will likely attract a broader investor base while a Tbill-indexed floater may simply cannibalize existing bill investors. One attractive feature of the floater is that it protects investors in a rising rate environment. However the "1 week lag" of indexing to 3m bill auction stopout yields could cause the investor to miss out on any rising yields throughout the week until the next weekly bill auction, while GCF repo will capture yield movements by the day. From a liquidity perspective, a GCF-indexed floater will have a more market-based way of hedging for the dealer community as GCF futures, compared to bills, are the better hedge without fail consequences. With the successful launch of GCF repo futures last July and front 3 contracts now totaling about 30k lots, the continuing build-up in open interest will add to GCF-indexed floater liquidity.

To be sure, GCF repo is more volatile than 3m bills, swung by daily gyrations of settlement and idiosyncratic behaviors of investors. However most of these sporadic factors also impact 3mo bills which trade with less volume and are less liquid than GC and more prone to supply and flow distortions. In fact, we argue over a quarterly period of daily interest accrual, day-to-day swings matter less and a GCF-based floater will earn the average overnight rate throughout the quarter. If the Treasury were to issue GCF-based floater on a day where repo spikes while bill yields fall, we believe a GCF-based floater will react accordingly by compressing the clearing spread at auction; hence not necessarily increasing the Treasury's borrowing cost at all. Similarly, investors will also look through any higher level of GCF (e.g. given its intra-dealer nature and or when the Fed starts to exit via reverses) and price in a more negative spread as a result.

Granted, GCF repo index is a relatively new index but we have seen tremendous growth in liquidity and market participation. Overtime, we believe GCF repo index will only grow in market acceptance as more firms start to manage their balance sheets via clearing houses and participate in GCF repo. Hence we still prefer GCF repo to a broader tri-party repo index, as we believe the GCF repo will become a much more robust index in the near future.

NOMURA

NOMURA SECURITIES INTERNATIONAL, INC.
2 World Financial Center, Building B
New York, NY 10281-1198
(212) 667-9300
www.nomura.com

Day count convention: We believe ACT/360 will be ideal to best resemble repo convention. ACT/360 is also currently used by most agency floaters.

Minimum interest rate: We believe a minimum interest rate of 0% is appropriate to prevent reverse cashflow from investors to the Treasury at coupon payment dates, while also making the product more attractive to buyers.

Minimum spread: Although we believe a minimum spread may be needed to allow floaters to issue at a premium, a minimum spread of zero may not be the ideal choice. For example, a GCF-indexed Treasury floater will most likely have a negative spread and in the case of a zero minimum spread, GCF- indexed Treasury floater will almost always price at a premium. If the goal is to have Treasury floaters issued as close to par as possible, we believe floaters should not trade at premium unless any of its daily accrual interest falls negative (in which case daily interest accrual will be floored at zero). Meanwhile, trying to set a minimum spread of a negative number to get closer to par will be very messy as GC-Tbill spreads have fluctuated over the years. Bottom-line, in order to best resemble a UST notes auction where auction yields below the minimum coupon of 0.125% lead to issuance at premium prices, we believe Treasury floaters should price at premium at auctions when any of its daily accrual interest falls below the "minimum coupon" of zero.

Forward settle: Without knowing exact interest accrual beyond one business day (especially with the GCF index), forward settle brings more uncertainty. However, this is not a new issue for floater investors as some agency floaters face the same problem. We believe this risk is manageable and should not pose problems for participants.

Mid or end of month settle: Although Treasury floaters can settle any time in the month in principle, we prefer mid-month from a calendar congestion point of view with month-end already crowded with TIPS. Also, without knowing accrual interest beyond one business day, the WI period of the floater could be kept as short as possible to minimize uncertainty. Hence mid-month settlement may also provide more flexibility there given current calendar.

Issue Size: We believe large issue sizes with multiple reopenings will be beneficial to liquidity and we are looking for initial offering size of around $10bn, with slightly smaller sizes for reopenings.

We are happy to discuss any of the answers in more detail.

Sincerely,

Brad Wolfthal
Head of Global Funding & Front End Rates
Nomura Securities International