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Ms. Mary J. Miller, Assistant Secretary for Financial Markets
Department of the Treasury
Bureau of the Public Debt
Government Securities Regulations Staff
799 9th Street NW.,
Washington, DC 20239-0001

Federal eRulemaking Portal – http://www.regulations.gov

Re: Notice and request for information – Public Input on the Development and Potential Issuance of Treasury Floating Rate Notes (Docket No. BPD-2012-001; FR Doc. 2012-6662)

Dear Ms. Miller:

Fidelity Investments ("Fidelity")[1] appreciates the opportunity to respond to the Treasury Department's ("Treasury") request for comment to help inform its evaluation of the merits of issuing floating rate notes. Fidelity serves as the investment adviser to a broad array of mutual funds and institutional portfolios that currently invest in Treasury securities and other money market instruments.

Fidelity generally supports the issuance of Treasury Floating Rate Notes ("Treasury FRNs"). We believe that Treasury FRNs, so long as they are appropriately structured, could be an attractive investment for Fidelity money market mutual funds, which operate in accordance with rule 2a-7 under the Investment Company Act of 1940 ("Rule 2a-7").[2] Initially, we would expect the investor base for Treasury FRNs to be predominately money market mutual funds, but these securities could also appeal to short duration bond funds, some short-term retail investors and other capital markets investors. As more fully discussed below, we understand that Treasury may consider issuing Treasury FRNs with a variety of structures to appeal to an expanded investor base. Based on our evaluation of the merits of Treasury FRNs as a potential investment, we set forth in this letter our observations and suggestions in response to some of the questions raised by Treasury in its request for information.

[1] Fidelity is one of the world's largest providers of financial services, with assets under administration of nearly $3.6 trillion, including managed assets of over $1.6 trillion. Fidelity is a leading provider of investment management, retirement planning, portfolio guidance, brokerage, benefits outsourcing and many other financial products and services to more than 20 million individuals and institutions, as well as through 5,000 intermediary firms.

[2] Title 17, Part 270.2a-7 of the Code of Federal Regulations [17 CFR 270.2a-7 Money Market Funds].

Fidelity believes that appropriately structured Treasury FRNs could be an attractive investment to a broad investor base, especially in a rising interest rate environment. In such an environment, investments in Treasury FRNs would allow funds and portfolios to pass on the increased income resulting from the increase in interest rates to shareholders and clients. Moreover, to the extent that Treasury FRNs are structured with short interest rate reset periods, interest rate risk to the investors in our funds could be mitigated. Treasury FRNs would also increase the supply of eligible investment products available to money market mutual funds, particularly those funds that have a mandate to invest only in securities issued by the U.S. Treasury.

Treasury FRN Structure

Fidelity recommends that Treasury FRNs be structured to allow money market mutual funds to become significant purchasers of Treasury FRNs, which means that the Treasury should consider the strictures of Rule 2a-7.

Rule 2a-7 requires a money market mutual fund to maintain a dollar-weighted average portfolio maturity (or, DWAM) that does not exceed 60 days (taking into account certain interest rate adjustments).[3] With respect to Treasury FRNs, the shortest possible interest rate reset period will maximize the ability of a money market mutual fund to hold larger Treasury FRN positions. For example, if a money market mutual fund re-allocates ten percent of its assets from its cash holdings toward the purchase of a Treasury FRN with a monthly interest rate reset (roughly every 30 days), then it will add three days (10% x 30 days) to its DWAM at the time of purchase. On the other hand, if the fund allocates ten percent of its assets to a Treasury FRN with a quarterly interest rate reset (roughly every 90 days), then it will add nine days to its DWAM (10% x 90 days).

Rule 2a-7 also requires a money market mutual fund to maintain a dollar-weighted average portfolio life (or, WAL) that does not exceed 120 days (***without*** taking into account any interest rate adjustments).[4] In the context of Treasury FRNs, the shorter the period remaining until final maturity, the less impact the security will have on a money market mutual fund's aggregate WAL calculation. For example, if a money market mutual fund re-allocates ten percent of its assets from its cash holdings toward the purchase of a Treasury FRN that matures in one year, then it will add 36.5 days (10% x 365 days) to its WAL at the time of purchase. On the other hand, if the fund allocates ten percent of its assets to a Treasury FRN that matures in two years, then it will add 73 days to its WAL (10% x 730 days).

For money market mutual funds, ideally Treasury FRNs would be structured: (1) to include short interest rate reset periods (such as daily, weekly, or monthly), to reduce the impact

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[3] Rule 2a-7(c)(2)(ii), (d).
[4] Rule 2a-7(c)(2)(iii).

on a money market mutual fund's DWAM and to mitigate the risk of interest rate volatility, and (2) with a final maximum maturity in the range of one to two years, so that money market mutual fund portfolios can readily comply with the WAL restriction.

In addition, based on our experience advising money market mutual funds in connection with their purchase of floating rate securities, we recommend that Treasury FRNs be structured with a coupon rate that has a floor of zero to attract potential investors and that interest rate reset periods should match the tenor of the underlying interest reference rate. However, coupon payment dates for Treasury FRNs could be structured to be less frequent than the interest rate reset dates. For example, a Treasury FRN could have the applicable interest rate reset weekly based on an underlying weekly interest reference rate, while making monthly or quarterly coupon payments.

Reference Rates to Consider

Treasury's request asks for comment on the appropriate reference rates for Treasury FRNs. For the reasons discussed below, Fidelity believes that the DTCC GCF (General Collateral Finance) Repo Treasury Index (the "Repo Treasury Index") is the most attractive reference rate to apply to Treasury FRNs and will ultimately attract a broader investor base than other possible reference rates. We set forth below our views with respect to a few of the possible reference rates.

(a) The Repo Treasury Index: A reference rate based on the Repo Treasury Index would be attractive because it is a short-term investment benchmark that provides a highly transparent view of the repurchase agreement trading activity in government securities on a daily basis. It would appeal to money market mutual funds and other investors with broad investment mandates and not just those funds that invest primarily in government securities. Fidelity believes that this rate may also be attractive to the dealer community, as the yield would be based off of a funding index with a known spread.

The disadvantages associated with the use of the Repo Treasury Index as a reference rate for Treasury FRNs include: (1) limited historical data for this index which makes market understanding of its volatility limited; (2) to our knowledge, no other security currently trades using this index; and (3) the index currently has limited participants.

Currently, there is no related derivatives market based around this index, however we understand that the derivatives market is soon to launch futures contracts based on the Repo Treasury Index.[5] We think the trading of these derivative instruments based around the Treasury Repo Index will encourage participation by a broader investor base and thereby enhance the liquidity of any Treasury FRNs based on the Repo Treasury Index.

[5] We understand these contracts are currently scheduled to be launched in July 2012.

(b) Treasury Bill Index: A reference rate based on a Treasury Bill index would be attractive because the Treasury Bill index is reflective of a broad and transparent market. Further, the Treasury Bill index mitigates the potential for basis risk.

The disadvantage of using a reference rate based on a Treasury Bill index is that the potential investor base for this product may then be limited to existing buyers of short-term Treasury Bills, particularly Treasury only money market mutual funds that do not have the ability to invest in alternative short-term investments, such as repurchase agreements.

(c) Effective Federal Funds Rate: The Effective Federal Funds Rate is a known market index that resets on an overnight basis and so would not negatively impact the DWAM calculations applicable to money market mutual funds under Rule 2a-7 (as more fully discussed above).

However, the Effective Federal Funds Rate it is not as transparent as the Treasury Bill Index because it is an inter-bank lending rate, which imparts an element of bank credit risk to the pricing of Treasury FRNs. In addition, the current size of reserve balances ($1.56 trillion)[6] has greatly reduced the market for Federal Funds. The significant reduction in trading volume has made the Federal Funds market less predictable and potentially more volatile. Accordingly, it may not remain representative of rates obtainable for overnight money market investments. Finally, the Effective Federal Funds Rate has exhibited notable volatility in the past five years. For these reasons, from a money market mutual fund perspective, a reference rate based on the Effective Federal Funds Rate is the least attractive option.

Liquidity

Fidelity recommends that Treasury conduct sales of Treasury FRNs in the same manner as that of other auctions of instruments issued by Treasury. The existing Dutch auction process used by Treasury will be (1) familiar to investors, (2) establish a reliable schedule, and (3) establish a predictable size range for issuances. Further, it should be possible to re-open an original cusip such that later new issuances may be consolidated under the same cusip, which will enable better liquidity to be built within each issue.

Fidelity would expect primary dealers to play a similar role in the issuance of Treasury FRNs to that which they currently undertake in connection with the issuance of other Treasury instruments. We would also expect primary dealers to make a liquid secondary market for Treasury FRNs.

[6] FRB: H.4.1 Release--Factors Affecting Reserve Balances, April 5, 2012 (Data as of 4/4/12).

Similar to other Treasury security issuances, the liquidity of Treasury FRNs will be driven in large part by the size of the issuance. From a money market mutual fund perspective, larger size issuances provide better liquidity in the product. In the context of the current market, Fidelity believes that the liquidity of the product will be enhanced if Treasury FRNs are structured with short interest reset periods and an ability to re-open a cusip for a particular issuance at least twice in a year.

Ultimately, the nature of the interest rate environment at the time of issuance of any Treasury FRNs and the supply of other permissible floating rate assets that represent minimal credit risk will drive demand of potential investors.

Trading and Operations Impact

Fidelity's operating systems would accommodate transactions involving Treasury FRNs and we do not anticipate the need for significant changes in our investment operations.

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We thank Treasury for considering our comments. Fidelity would be please to provide any further information or respond to any questions that Treasury or its staff may have.

Sincerely,