NOMURA

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

April 18, 2012

Department of the Treasury
Bureau of the Public Debt

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

Dear Sir or Madam:

Nomura Securities International, Inc. appreciates the opportunity to comment on the proposal to issue Treasury Floating Rate Notes (FRNs). In general, we believe floater issuance from the Treasury would be well received by certain actors in the marketplace and over time could marginally reduce borrowing costs. Here we provide our thoughts on the questions.

1. Will FRNs attract new investors into the Treasury market for a sustained period of time?
Yes, we believe the structural demand will mainly come from money funds if FRN can offer attractive yield pickup and have a short final maturity e.g. 2yrs. We believe there should also be modest demand from banks, especially as their preparation for Basel 3 may coincide with rising rates.

2. Would a Treasury FRN help meet the investment needs of retail and institutional investors?
This totally depends on the FRN features, but the key ones are short maturity to attract money funds, a frequent reset to keep WAM impact low and a reliable and easy-to-understand index to market to a broad base of investors.

3. How liquid would you expect FRNs to be in the secondary markets?
In the ideal scenario i.e. a large issue size, solid indexing base, liquidity in funding markets, regulatory friendliness (e.g. rating agency acceptance for rated money funds, 2a-7 weekly liquidity bucket inclusion), we expect strong secondary market liquidity, e.g. greater than for Agencies but less than Treasury coupons.

4a. What is the ideal maturity for a Treasury FRN?
Starting with a shorter maturity, e.g. 18m to 3yr, should capture the broadest demand esp. from money funds.

4b. What are the pros and cons of using the following reference rates for a Treasury FRN: Treasury bills, a Treasury general collateral-based repurchase agreement ("repo") rate, and the federal funds effective rate? Are there any other reference rates that merit consideration?
A T-bill indexation will be appealing to traditional bill investors (especially those who typically roll). However, any changes in T-bill supply schedule may impact resets and new FRN issuance may replace bill issuance. So the issue here is the inter-dependence between FRN and the underlying index. The fed

NOMURA

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

funds effective rate would be a logical choice if it was a more traded market. Looking ahead, the risk remains that the FF market may be even more distorted amid the Fed"s exit (via reserves with GSEs) and the wind-down of GSEs themselves. We think the GCF repo index, out of the three, is the best market-based indicator, but still awaits rating agency endorsement. Also repo-indexed FRN may cannibalize existing repo market and depending on FRN settlement cycles, repo index is not entirely independent of FRN issuance either (same issue as bills).

4c. What would be the appropriate coupon payment frequency of a Treasury FRN?
Quarterly or monthly, depending on index and reset frequency.

5. What changes to trading, settlement and accounting systems would be needed to accommodate FRNs?
We need repo infrastructure for FRNs as well as a valuation system set up e.g. forward curves in GC or whatever index chosen. Such curves should also be built for software platforms e.g. Bloomberg. In terms of hardware, new direct bidding systems (e.g. TAAPS) should be rolled out for FRN.

6. Are there any other operational issues that the Treasury should be aware of when deciding on whether to issue FRNs?
We think there should be a considerable amount of marketing and education for the FRN product as well as the index for them to be based on. Certain indices are undergoing developments themselves, such as the GCF index, with a futures market in the works. We still need to hear from the rating agencies about their view on whatever index the Treasury chooses, e.g. S&P rated money funds can only invest in FRN linked to an index 95% correlated to fed funds or Libor.

7. Given the above considerations, are FRNs a useful debt-management tool that the Treasury should consider?
In terms of lowering borrowing cost and extending average debt maturity, we believe FRNs are beneficial, but the effects may be moderate given the size of the program may stay a small percentage of overall debt. Also, the savings in term premium may be offset, at least in the early stages, by a liquidity discount (similar to TIPS where debate still continues over whether the program has been cost effective). We believe FRNs do play a role in the overall debt portfolio if they cater to the right investor class.

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