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To: [GOVSECREG](#)
Cc: Alan.Mittleman@natwestmarkets.com
Subject: TREAS-DO-2020-0007
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To Whom It May Concern,

Please find below comments from NatWest Markets Securities Inc. relating the above mentioned matter

- NatWest Markets (NWM) expect demand for a SOFR FRN to grow over time, but at this stage have not received a significant amount of indications of interest from our client base. That would be expected to materialize as the product comes to market. Initially, we think there will be some opportunistic buying based on return vs. other front-end UST products.
- When comparing a potential SOFR FRN to existing T-Bill FRN, we see buyers of the latter consistently rolling positions and believe these clients to be ones with very good understandings of their historical cash needs on a weekly basis. Given we see them rolling T-Bills, it would make sense that a product indexed to a T-Bill auction price would be an attractive option for their needs. However given the differences with SOFR, it is conceivable that we will not see as large an uptake in a SOFR FRN product versus T-Bill FRN products. NWM would however expect market use of a SOFR FRN to evolve over time, particularly as SOFR related products become more commonplace in the wider market
- NWM has considered the hypothesis that a SOFR FRN could save on issuance costs in a similar way that it is believed T-Bill FRNs have done. NWM does have doubts about research showing that T-Bill floaters have provided a net savings for Treasury as the study points to a comparison of 2yr yields which NWM believes may be the wrong comparison as the majority of the buyers of the T-Bill FRN would be T-Bill rollers, not 2yr buyers. So ultimately, these buyers are receiving a discount to buy a product whose individual parts they would have bought at market levels anyway. NWM believes that in the absence of T-bill FRNs, given the source of the demand, issuing additional bill supply may have been the cheaper option.
- NWM believes the \$500bn of current T-Bill FRNs has most likely shifted buyers out of the T-Bill auctions, thus making T-Bills and the FRNs more expensive. If a SOFR FRN were to similarly attract overnight lenders out of the Triparty market it could end up driving funding costs for all UST products higher. If demand mostly comes at the expense of bills or T-bill FRNs, Treasury may be swapping less expensive forms of funding, for a more expensive one.
- NWM sees benefits to SOFR FRN for Treasury outside of providing the lowest cost funding, namely encouraging the broader market transition to SOFR.

Regards,



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