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Matthew S. Rutherford
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

Dear Mr. Rutherford:

In an Advance Notice of Proposed Rulemaking (ANPR) published in the Federal Register of December 5, 2012, the Department of Treasury indicates that it is considering two possible index rates for pricing a new type of marketable security with a floating rate interest payment. The first index being considered is the 13-week Treasury bill auction stop-out rate converted into a simple Actual/360 interest rate (i.e., the "Treasury Bill Yield"). The second index under consideration is a Treasury general collateral overnight repurchase agreement rate (i.e., the "Treasury GC Rate").

The Treasury Department notes that many market participants have expressed a concern that the Index Rate chosen should reference a rate that is: 1) set by supply and demand in an actively traded and liquid market; and 2) established in a manner that is transparent. The Treasury Department's objective is to minimize borrowing costs over time, optimize the maturity profile of outstanding marketable debt, expand the investor base, and provide their debt managers with enhanced flexibility.

For the two key reasons we discuss briefly below, Rutter Associates believes that among the indices cited in the ANPR, the DTCC GCF Repo Index (based on Treasury collateral) is the index most likely to satisfy jointly the requirements of the investor base for liquidity and transparency and the requirements of the Treasury Department for a low cost of debt service over time.

The DTCC Treasury GCF Repo Index is simple and transparent. Its construction involves nothing more than a <u>daily</u> trade-weighted average of rates on overnight repo trades in applicable Treasury CUSIPS (note that the 13-week Treasury bill auction stop-out rate is established on a weekly basis, not daily, and this is a significant disadvantage to the use of that rate as a pricing index). The Treasury GCF Repo Index is observable in the Wall Street Journal, Bloomberg and other readily available sources, and the index data published in the January 22nd edition of the Wall Street Journal (page C5) revealed an underlying trade volume of $133billion reflecting an active and liquid market. We believe that its simplicity, transparency, and its determination in an active and liquid market makes the DTCC Treasury GCF Repo

Index an attractive one for investors that will result in a very small risk premium (that is, *spread*) in pricing the new floating rate Treasury security. A small risk premium means "lower interest cost" to the Treasury Department.

Further, the DTCC Treasury GCF Repo Index is the underlying index for an exchange-traded futures contract that trades with significant open interest. These futures contracts extend out 2 years in 24 monthly contracts and are cash-settled each month at the average monthly rate of the daily DTCC Treasury GCF Repo Index. Many academic studies have shown that futures contracts enable risk transfer and facilitate price discovery, thus enhancing the efficiency of underlying cash markets. All else equal, to the extent that these are viewed positively by the investor base, the cost of Treasury debt will be lower.

Rutter Associates believes that among the choices listed in the ANPR the Treasury Department should adopt the DTCC Treasury GCF Repo Index as the rate basis for pricing the new marketable floating-rate security. The advantages of determination in a liquid and transparent market and price transparency coupled with the existence of an active futures market for the DTCC Treasury GCF Repo Index make it a benchmark that should lead to broad appeal among investors and low debt service costs to the U.S. Treasury Department.

Respectfully Submitted,
Rutter Associates LLC

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