sifma
Invested in America

March 4, 2013

Bureau of the Public Debt
Government Securities Regulations Staff
U.S. Department of the Treasury
1500 Pennsylvania Ave., NW
Washington, D.C. 20220

RE: Proposed Rulemaking on the Issuance of Floating Rate Notes – Operational Issues

To the U.S. Department of the Treasury:

The Securities Industry and Financial Markets Association[1] ("**SIFMA**") appreciates the opportunity to comment on the proposal made by the Department of Treasury (the "**Treasury**") in its Advanced Notice of Proposed Rulemaking (the "Proposal") dated December 5, 2012. This Proposal describes the Treasury's intention to issue a new type of marketable security with a floating rate interest payment, i.e. a Floating Rate Note ("**FRN**"). In particular, this letter provides comments related to questions on the operational capabilities of SIFMA members of the Government Operations Committee (representatives include operations professionals from primary dealer firms) to support a number of approaches or specific provisions in the Proposal.

Introduction

The Proposal outlines the Treasury's plans for the design of FRNs and requests comments on the design details, terms and conditions, and other features of this new security. In particular, we note that comments/questions were requested on certain operational issues. These include: 1. the appropriate length of any "lock-out" period; and 2. operational issues with forward settlement-specifically, a change to the Uniform Offering Circular that would provide for notification of the amount to be charged (in principal and accrued interest) on the issue date no later than the day before the issue date. This letter reflects the views of the Government Operations Committee and if it would be helpful, we would be happy to arrange a meeting with the Treasury with a representative group of our members' operations professionals to review the operational readiness of our member firms to support the program.

---

[1] SIFMA brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association. For more information, visit www.sifma.org.

Lock Out Period

The Treasury seeks comments on the appropriate length of the lock out period for FRNs. Specifically, the Treasury notes:

> The current convention in the floating rate securities market is for interest payments to be set five business days in advance of the Payment Dates. This standard practice dates back to the late 1980s. Investors requested the five business-day notice for operational purposes. Given technological advancement, we believe one Business Day notice of interest payments should suffice. Please comment on the appropriate length of the lock out period.

SIFMA agrees with the assertion that technological advancement would permit a shortening of the standard "lock-out" period of five days. Our members believe that a one-day lock-out period is possible from an operations perspective and firms would need minimal advance preparations to implement. However, given that this would be a change to a long-standing market convention, we believe that, at least initially, a 2-day lock-out period would be optimal for operational efficiency. The benefit of an initial 2-day lock-out period is that it would accommodate both the firms who are currently able to absorb a shorter lock-out period in their current operational flow, as well as firms that would have to make operational adjustments. In addition, buyside members also indicated, that a 2-day lock-out period would be optimal to achieve operational efficiency. We believe that after an initial period of adjustment to the 2-day lock-out period, it would be easier to fully understand the capabilities to move to a one-day lock-out period, and to subsequently implement this change with no potential operation disruption.

We would also like to note that the choice of index for FRNs will impact the operational efficiency of firms with respect to the length of the lock out period. In order to make the appropriate changes to systems and to develop the technology to implement a system for FRNs, it would be helpful to know the index that will be used in connection with FRNs and where that index will be available as soon as possible.

In sum, SIFMA recommends a 2-day lock-out period for operational efficiency, and also underscores the importance of announcing the choice of FRN index as soon as practical and with sufficient advance notice to market participants.

Forward Settlement

In the Proposal the Treasury notes a possible change to the Uniform Offering Circular to accommodate the forward settlement of FRNs after auction. Specifically with respect to FRNs, the Proposal notes that "if the auction date is more than one day before the issue date, the amount of accrued interest for reopening may not be known. That could be problematic if the initial Index Rate is not known by the day after the auction." The Treasury is considering changing the rule to allow for notification “no later than the day before the issue date” and requests comment on any operational issues this might cause.

The consensus of our membership is that this change should not pose an operational issue to the market. Agency FRNs are routinely settled on a forward basis with unknown accrued interest. No member raised an operational issue with this change and all would be prepared to implement this if the change is made to the Uniform Offering Circular.

Additional Considerations

SIFMA would like to note that it would be generally helpful to the industry’s operational preparations to have the expected details of the program announced with sufficient time before the first auction to allow for any necessary changes to systems. Additionally, and related to the benefit of advance notice, SIFMA assumes that FRNs will be a new security type which will require firms to amend their collateral schedules for tri-party repo programs (which will require prior notice in order to make the necessary contractual updates).

Conclusion

SIFMA sincerely appreciates the opportunity to provide input on this Proposal and looks forward to working with the Treasury as the planning for this important addition to the Treasury portfolio is developed. If Treasury staff have further specific operational questions on these issues or any others, we will be happy to meet with you to provide further information.

If you have any questions, please feel free to contact the undersigned at 212.313.1124 or rtoomey@sifma.org.

Sincerely,

Robert Toomey
Managing Director and
Associate General Counsel

New York | Washington
120 Broadway, 35th Floor | New York, NY 10271-0080 | P: 212.313.1200 | F: 212.313.1301
www.sifma.org