



January 22, 2013

VIA ELECTRONIC SUBMISSION

Bureau of Public Debt
Government Securities Regulations Staff
799 9th Street, NW
Washington, DC 20239-0001

Re: Request for Comment on Department of Treasury Advanced Notice of Proposed Rulemaking – Sale and Issue of Marketable Book Entry Treasury Bills, Notes and Bonds

CME Group Inc. ("CME Group")¹ appreciates the opportunity to comment on the above-referenced advance notice of proposed rulemaking ("Release") by the Department of the Treasury ("Treasury") to facilitate the sale and issuance of marketable book-entry Treasury securities with floating rate interest payments ("Treasury FRNs").

CME Group commends the Treasury for seeking to diversify its marketable debt offerings. We wish to assist and support this undertaking, and we encourage Treasury to issue Treasury FRNs with the strongest possible foundation for success.

Our comments address three of the questions posed by Treasury in the Release, which are as follows:

- 1.0 Please comment on which Index Rate should result in Treasury attaining the lowest cost of financing over time.*
- 2.0 Please comment on the relative merits of using a broader tri-party Treasury GC rate as compared to a narrower subset, such as DTCC's Treasury GCF index, as the Index Rate.*
- 3.0 If we were to select a Treasury GC Rate as the Index Rate, the daily Reset Frequency would have a Determination Date of one Business Day prior. Given that most Treasury securities trade in the secondary market for settlement the next Business Day, referencing the previous Business Day would allow the accrued interest to be known at the time of the trade versus only on the settlement date. Regardless of choice of index, any forward trades settling beyond one business day could have unknown accrued interest. Please comment on whether this would present problems for market participants.*

¹ CME Group is the world's largest and most diverse derivatives marketplace. It comprises five separate exchanges: Chicago Mercantile Exchange Inc. ("CME"), the Board of Trade of the City of Chicago, Inc. ("CBOT"), the New York Mercantile Exchange, Inc. ("NYMEX"), the Commodity Exchange, Inc. ("COMEX") and the Kansas City Board of Trade ("KCBOT") (collectively, the "CME Group Exchanges"). The CME Group Exchanges offer the widest range of benchmark products available across all major asset classes, including futures and options based on interest rates (including US Treasury Note and Bond futures and futures options), equity indexes, foreign exchange, energy, metals, agricultural commodities, and alternative investment products. CME includes CME Clearing, one of the largest central counterparty clearing services in the world, which provides clearing and settlement services for exchange-traded contracts, as well as for over-the-counter derivatives transactions through CME ClearPort®.

(1.0) Comparison of the Treasury Bill Yield and the Treasury GC Rate

"We are requesting comments on which *Index Rate* should result in Treasury attaining the lowest cost of financing over time. Specifically, we are considering (1) the 13-week Treasury bill auction High Rate (stop out rate) converted into a simple ACT/360 interest rate (the "*Treasury Bill Yield*") and (2) a Treasury general collateral overnight repurchase agreement rate (the "*Treasury GC Rate*")."

(1.1) Financing Cost

Investor return from FRNs will reflect the chosen Index Rate plus the spread. Comparing Index Rate choices absent the spread, historical experience evidences that use of the Treasury Bill Yield would produce a lower financing cost as compared with a Treasury GC Rate. For example, as noted in the Release, among the Treasury GC Rate measures under consideration is the Treasury General Collateral Finance ("GCF") rate, which is published daily by the Depository Trust & Clearing Corporation ("DTCC"), and for which historical data are available since January 2005.

Historical comparison of this Treasury GC Rate measure to the Treasury Bill Yield (as defined above), absent the spread, indicates that the Treasury Bill Yield produces the lower cost of financing. Consider, for example, the interval from January 2005 through December 2012 (Exhibit 1):

On average, the DTCC GCF rate exceeds the Treasury Bill Yield by 12.9 basis points per annum.

The DTCC GCF rate exceeds the Treasury Bill Yield approximately four days out of every five.

If both rates are used to compute interest (quarterly, without compounding) on a hypothetical Treasury FRN exposure with constant face value of \$10 billion over the eight-year period, the cumulative interest incurred by the DTCC GCF rate (\$1.557 billion) exceeds the cumulative interest incurred by the Treasury Bill Yield (\$1.454 billion) by 7.1 percent.

Exhibit 1

Quarterly Interest Payment Difference, T-Bill minus DTCC Repo

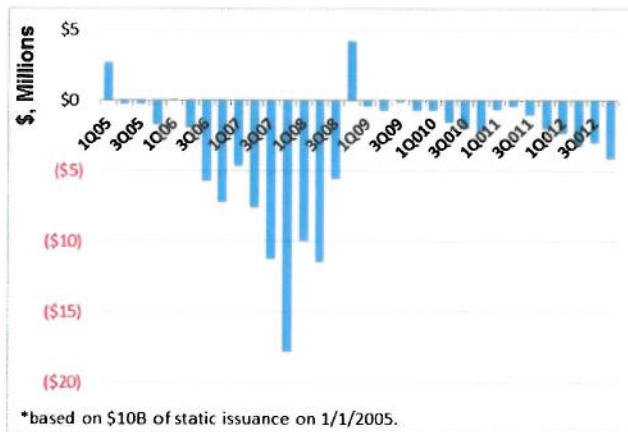
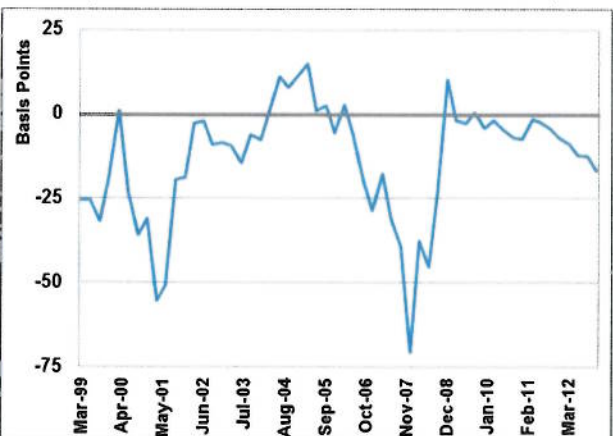


Exhibit 2

Quarterly Basis Point Difference, T-Bill minus Reuters Repo



Data Sources: Depository Trust and Clearing Corporation, IHS Global Insight, US Treasury Department.

As evidenced by Exhibit 2, a comparable result may be derived from comparing the Treasury Bill Yield to other measures of the Treasury GC Rate, such as the Thomson Reuters daily composite interest rate on

repurchase agreements backed by US government securities ("Reuters GC RP").² For instance, from January 1999 through December 2012, the Reuters GC RP rate exceeded the Treasury Bill Yield by an average of 13.5 basis points per annum.

(1.2) Other Treasury Objectives

In considering the terms on which to issue Treasury FRNs, the Treasury's objectives should not only be limited to borrowing at the lowest cost over time, but should include other goals as well, some of which demonstrate the relative advantage of using the Treasury Bill Yield over a Treasury GC Repo rate, as exemplified by the DTCC GCF rate.

(1.2.1) Expansion of the Investor Base for Treasury Marketable Debt

Clarity of Index Rate Interpretation

Among the relative virtues of the Treasury Bill Yield is that it would link Treasury FRNs to an interest rate benchmark that gives a direct and clear indication of the creditworthiness of the US Treasury through outcomes of Treasury bill auctions.

By comparison, the interest rate exposure embodied in the Treasury GC Rate may be difficult for investors to evaluate, especially in the case of Treasury GC Rate measures, such as the DTCC GCF index, that are based either in whole or in large part on transaction activity in the interdealer market for Treasury general collateral repurchase agreements. In such instances, the Index Rate will reflect not only the market rate of discount, and the perceived credit quality of the US Treasury, but also the technicalities peculiar to inventory management and financing among the primary dealers in the US government securities market.³ Such technicalities may include differentials in creditworthiness among primary dealers; differential supply and demand imbalances among Treasury issues that are nominally general collateral; collateral haircuts; price volatility of pledged Treasury collateral; seasonal funding pressures associated with the Treasury Department's issuance calendar and/or investor demand flows; and, on occasion, the bankruptcy or threat of bankruptcy of major participants in the Treasury GC repo market.

Index Rate Volatility

The Treasury Reuters GC RP Rate exhibits more than double the basis point volatility versus the market yield on 3-month constant maturity Treasury securities⁴. The Treasury GC Rate also tends to be more volatile at quarter end and month end. Important to ascertain is whether potential investors in Treasury FRNs would welcome this, as a beneficial diversification of interest rate exposure on Treasury marketable debt, or find it unappealing in terms of its risk management challenges. Total return to investors and total issuance cost to Treasury will be determined by the Index Rate plus the spread. Investors will likely consider the level and volatility of the Index Rate when establishing the spread at FRN auctions.

(1.2.2) Additional Flexibility for Treasury Debt Managers vs. Integrity of Treasury Auctions

Linking Treasury FRNs to the stop-out rates in 13-week Treasury bill auctions would closely reflect a familiar market to potential investors. However, it would magnify the importance of auction results. A potential risk is that this could become a motive for market participants to influence, or to attempt to influence, the outcomes of Treasury bill auctions. If so, one cost of obtaining the flexibility to issue Treasury FRNs linked to the Treasury Bill Yield would be the requirement of closer monitoring and heightened surveillance of auction participants.

² Data source: IHS Global Insight.

³ <http://www.newyorkfed.org/markets/primarydealers.html>

⁴ Federal Reserve Bank of New York H.15

(2.0) DTCC GCF vs. Tri-Party Treasury GC RP

“While a *Treasury GC Rate* representing all tri-party repurchase agreement (repo) transactions currently is not published, the Depository Trust & Clearing Corporation (DTCC) publishes the Treasury General Collateral Finance (GCF) rate which represents a subset of tri-party Treasury GC repo transactions. Please comment on the relative merits of using a broader tri-party Treasury GC rate as compared to a narrower subset, such as DTCC’s Treasury GCF index, as the *Index Rate*.”

(2.1) Limitations of DTCC GCF

The DTCC GCF index suffers from limitations that, for many prospective Treasury FRN investors, could make it less attractive than an Index Rate that represented the broader tri-party Treasury GC repo market. These include:

Breadth of Exposure

The DTCC GCF index value on any given day is determined by trading activity of firms that are members of the Fixed Income Clearing Corporation (FICC), a subsidiary of DTCC.⁵ To the extent that such trading activity represents chiefly the interdealer market for Treasury GC repurchase agreements, the DTCC GCF index may prove sensitive to the technicalities of that market, as described in Section (1.2.1). For the same reasons, the DTCC GCF index is unlikely to reflect transaction activity on the part of the larger investor base for Treasury FRNs.

Scale of Liquidity Pool

The transaction flows entering into determination of DTCC Treasury GCF index values account for a small portion of trading activity in the greater market for tri-party Treasury GC RP – around 12 percent (after adjustment for double-counting).⁶

(2.2) Tri-Party GC Repo

The choice of Index Rate should appeal to money market investors and others who are anticipated to demonstrate strongest demand Treasury FRNs. Such investors cannot transact in the interdealer market. Rather, they typically transact in the tri-party repo market with primary dealers and utilize tri-party repo clearing banks. To the extent that the tri-party repo rates at which they transact differ from the repo rates that apply to interdealer market activity, they might naturally prefer an Index Rate that is more directly representative of investor tri-party repo activity.

With this in mind, perhaps Treasury should encourage industry participants to create benchmarks that represent tri-party Treasury GC repo market activity. With trading activity in the realm of \$650 billion per day, the underlying market is adequately liquid. If created, such a benchmark would be a welcome candidate for consideration as the Index Rate.

⁵ www.dtcc.com/downloads/products/fi/gcf_fact_sheet.pdf

⁶ Federal Reserve Bank of New York and DTCC websites 2012 data



(3.0) Index Rate Availability and Access

"If we were to select a Treasury GC Rate as the Index Rate, the daily Reset Frequency would have a Determination Date of one Business Day prior. Given that most Treasury securities trade in the secondary market for settlement the next Business Day, referencing the previous Business Day would allow the accrued interest to be known at the time of the trade versus only on the settlement date. Regardless of choice of index, any forward trades settling beyond one business day could have unknown accrued interest. Please comment on whether this would present problems for market participants."

None of the Index Rate alternatives now under consideration should present problems for market participants, if the Treasury ensures that the Index Rate is made available to the public freely, timely, and without encumbrance.

The Treasury Bill Yield clearly poses no challenges in this regard.

Less clear is the status of the DTCC Treasury GCF index. DTCC imposes licensing restrictions upon the index.⁷ Moreover, simply to view the DTCC Treasury GCF index's values requires consent to DTCC's Terms of Use Policy.⁸ Were this benchmark (or any other index that is privately owned, administered, and/or published) to be selected as the Index Rate, the Treasury would be well advised to republish it without any such limitations, preconditions, or impediments.

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CME Group thanks the Treasury for the opportunity to comment on this matter. We would be happy to discuss it with you in greater depth. If you have any comments or questions, I encourage you to contact me at (312) 634-8842 or via email at Julie.Winkler@cmegroup.com or James Boudreault at (312) 930-3247 or via email at James.Boudreault@cmegroup.com.

Sincerely,

Julie Winkler
Managing Director, Research and Product Development

⁷ www.dtcc.com/downloads/legal/imp_notices/2012/ficc/gov/GOV130.12.pdf

⁸ The Terms of Use Policy declaration runs approximately 2,919 words. Worth mention is that we had to consent to it, simply to view and analyze Treasury GCF index values in preparing this letter of comment.