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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

**Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds**  
**77 Federal Register 72278**  
**Docket No. BPD-2013-0001**

New York Portfolio Clearing, LLC ("NYPC") is pleased to respond to the request by the United States Department of the Treasury ("Treasury") for comments on its Advanced Notice of Proposed Rulemaking ("ANPR") regarding the issuance of a new type of marketable security with a floating rate interest payment, and, in particular, the best reference rate to use for pricing the new securities.

NYPC is a joint venture derivatives clearinghouse owned equally by NYSE Euronext and The Depository Trust & Clearing Corporation ("DTCC") that clears interest rate futures contracts as a Commodity Futures Trading Commission registered derivatives clearing organization and cross-margins eligible positions against fixed income cash instruments cleared by DTCC's subsidiary, the Fixed Income Clearing Corporation ("FICC"). The product suite of interest rate futures that NYPC clears and cross-margins against FICC-cleared cash positions includes futures on the DTCC GCF Repo Index®.

In its ANPR, Treasury has indicated that it is considering two possible index rates for pricing the new securities. The first possibility is the stop-out rate of the 13-week Treasury Bill auction converted into a simple ACT/360 interest rate. The second possibility is a Treasury general collateral overnight repurchase agreement rate. The stated criterion for selection is that the selected index rate should result in the Treasury attaining the lowest cost of financing over time.<sup>1</sup>

We believe that economic theory and evidence strongly supports the use of the DTCC GCF Repo Index® as the reference index most likely to result in the Treasury's lowest cost of financing over time.<sup>2</sup>

**Advantages of Using the DTCC GCF Repo Index®**

There are three principal reasons why the DTCC GCF Repo Index® is best suited to achieve Treasury's goals. First, the design of the index is simple and transparent, thus easing price discovery.<sup>3</sup> Second, there is an existing derivatives market that already uses the DTCC GCF Repo Index® as its reference point, thereby contributing to

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<sup>1</sup> See 77 Federal Register 72278.

<sup>2</sup> In particular, we refer here to the DTCC GCF Repo Index® based on Treasury collateral.

<sup>3</sup> More information about the index construction methodology and data can be found at the following link:  
<http://www.dtcc.com/products/fi/gcfindex/>.



market completeness and pricing efficiency. Third, there is a well-developed market infrastructure that supports the DTCC GCF Repo Index<sup>®</sup>. That infrastructure includes a central order book in futures contracts listed by NYSE Liffe US (“NYLUS”), continuous pricing with broad and easy access to market prices, central clearing of the exchange listed futures transactions and daily publication of the closing spot rate. Each of these factors is discussed in more detail below.

### *Index Design*

The DTCC GCF Repo Index<sup>®</sup> captures the daily trade-weighted rate on overnight repos collateralized by Treasury securities and cleared by FICC. The rate for the DTCC GCF Repo Index<sup>®</sup> is calculated and published daily by DTCC. Only general Treasury collateral is used in the index calculation. Repo “specials” are excluded from the DTCC GCF Repo Index<sup>®</sup>. The index design has several advantages. First, because it is transaction-based, trade-weighted and only includes general collateral, it provides an accurate measure of the interest rate needed to clear the market on any given day. Second, the repo market upon which the index is based is very large with numerous buyers and sellers participating daily. For example, statistics published by the Federal Reserve Bank of New York suggest that daily repo transactions collateralized by Treasuries and reported by dealers have recently averaged about \$1 trillion.<sup>4</sup>

The large size of the underlying market and the fact that the index is transaction-based (rather than quote-based) should provide market participants (and the Treasury) with confidence that the index reflects the actual competitive market-clearing rate and is, therefore, suitable as a reference rate for a Treasury security.

Moreover, it is important to consider the fact that the DTCC GCF Repo Index<sup>®</sup> is based only on general collateral and not repo “specials”. As a result, the DTCC GCF Repo Index<sup>®</sup> represents a true market measure of the risk-free rate of interest without the distortions, noise and volatility normally associated with repo “specials”. Attenuating noise and volatility should serve to broaden the investor base and lessen borrowing costs by reducing uncertainty.

A third feature of the index design that makes it useful as a Treasury reference rate is that it captures and aggregates continuous pricing data. The index is not dominated by one-off events, as an auction based reference rate might be. Nor is it subject to anomalous auction results. Continuous price adjustments reflect real-time price discovery, allowing market participants to assess market conditions as they change. Finally, an index that is based on continuously occurring transactions, that is trade-weighted and transparent and that is calculated by a neutral third party (like FICC) is unlikely to be vulnerable to attempts at market manipulation.

These factors give the index well-deserved credibility, reduce uncertainty and are, therefore, likely to reduce Treasury’s borrowing costs by lowering the risk premia normally associated with the issuance of a new type of security.

### *The Existing Derivatives Market based on the DTCC GCF Repo Index<sup>®</sup>*

NYLUS launched futures contracts on the DTCC GCF Repo Index<sup>®</sup> on July 16, 2012, which have a notional \$5 million par value. They settle for cash each month at the average monthly rate of the daily DTCC GCF Repo Index<sup>®</sup>. NYLUS lists a strip of 24 monthly futures contracts on the DTCC GCF Repo Index<sup>®</sup>, extending out 2 years.

Since launch, futures on the DTCC GCF Repo Index<sup>®</sup> based on Treasury collateral have gained a significant foothold in the marketplace, with approximately \$251.595 billion notional in open interest as of close of business January 18, 2013. The great majority of the open interest is concentrated in contracts expiring within one year.

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<sup>4</sup> See <http://www.newyorkfed.org/markets/primarydealers.html>.



Exchange traded and centrally cleared futures contracts that reference the DTCC GCF Repo Index<sup>®</sup> facilitate price discovery, reduce uncertainty, lower counterparty risk, augment market liquidity and shrink transaction costs. Linking a floating rate Treasury instrument to the DTCC GCF Repo Index<sup>®</sup> would contribute to market completeness and allow the benefits of the futures markets to extend to the floating rate cash instrument, thereby lowering Treasury's borrowing costs. For example, General Collateral Finance Repos (GCF Repos<sup>®</sup>) already allow dealers to hedge and manage their financing costs, thereby allowing them to carry larger positions and provide additional liquidity to the marketplace, thus lowering client transaction costs and broadening the potential investor base.

A floating rate Treasury instrument specifically pegged to the DTCC GCF Repo Index<sup>®</sup> would allow the price discovery mechanism of the futures markets to efficiently price the floating rate Treasury. In turn, this would contribute to cash market liquidity, reduce uncertainty, broaden the investor base and compress auction underwriting spreads, thereby lowering Treasury's borrowing costs.

#### *The Existing Market Infrastructure*

Adopting the DTCC GCF Repo Index<sup>®</sup> as the reference rate for a Treasury floater would leverage the existing market infrastructure and ease acceptance of the new instrument, thus reducing marginal liquidity and risk premia that tend to be associated with new financial products. In the existing market infrastructure, a neutral party (FICC) collects the relevant data from actual transactions it clears. Currently, FICC then calculates and publishes the daily index value based on those transactions. NYLUS lists and trades futures on the DTCC GCF Repo Index<sup>®</sup> and disseminates prices and trading volumes widely. As described above, NYPC provides clearing and risk management services for NYLUS futures traders and provides margin offsets between highly correlated FICC-cleared cash positions and NYPC-cleared futures contracts.

A floating rate Treasury security that references the DTCC GCF Repo Index<sup>®</sup> would fit easily into this market infrastructure. Moreover, a cash floating rate Treasury security linked to the DTCC GCF Repo Index<sup>®</sup> would likely be highly correlated with futures on the DTCC GCF Repo Index<sup>®</sup>, which would allow for precision hedging, margin offsets, reduced transaction costs and increased transparency for investors, thereby broadening the base of potential investors. The Treasury would benefit from both the increased demand implicit in a larger investor base and reduced underwriting spreads at auctions.

#### **Summary**

The selection of a reference rate for pricing a floating rate Treasury security has the ultimate goal of reducing Treasury's borrowing costs. Using the DTCC GCF Repo Index<sup>®</sup> will help to achieve that goal by facilitating price discovery, reducing uncertainty, adding transparency, broadening the investor base and compressing the underwriting spreads the Treasury pays at auctions. For the reasons set forth above, we urge the Treasury to adopt the DTCC GCF Repo Index<sup>®</sup> as the benchmark for issuing new floating rate Treasury securities.

Respectfully Submitted,

Joseph F Benning, PhD