

The logo for Daiwa Securities America Inc. features the word "DAIWA" in a bold, white, sans-serif font, centered within a solid black rectangular background.

Daiwa Securities America Inc.

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September 29, 1999

Government Securities Regulations Staff
Bureau of the Public Debt
999 E Street, NW
Room 315
Washington, D.C. 20239-0001

RE: Redemption Operations

Dear Sir or Madam:

We enthusiastically support your proposal to repurchase Treasury securities in the open market. Financial markets will be best served by maintaining a high degree of liquidity in new Treasury issues, and your proposal should achieve this objective.

While we support your proposal in general, we would like to offer a few suggestions.

The proposal is modeled after the Federal Reserve's procedure for purchasing securities in the open market, but we would like to see the program resemble the Treasury's auctions in some respects. Specifically, we urge you to announce a buy-back several days in advance, rather than follow the Fed's practice of announcing on the day of purchase. Indeed, we prefer the Treasury to set a schedule of purchases, as it does for auctions. Dealers will have more opportunity to prepare for the transaction if given ample lead time, and the advanced preparation increases the likelihood of a successful operation. In addition, we suggest that you allow more than one day between the operation and settlement. Many traders and investors will need to alter portfolios after the transaction, and the extra days allowed by corporate settlement will make this task easier.

We prefer that the Treasury Department announce a particular range of maturities that will be purchased, rather than designating certain issues. Investors and dealers, then, will have the flexibility to offer a variety of issues. The Treasury is likely to benefit from this procedure, as it will probably be offered a host of securities that are cheap relative to the yield curve. Many traders and investors will view the buy-back program as a marvelous opportunity to dispose of many illiquid securities on their balance sheets. Some of these securities already trade at relatively low prices (when they do trade), and some market players may give a price concession to insure that they sell the issue. If the Treasury does designate certain securities to be purchased, we recommend beginning with smaller issues (under \$5 billion) and issues that are callable. Issues with less than \$2 billion

outstanding should be removed from the market. These issues barely trade in the market, and the lack of liquidity generates price distortions. As noted, such purchases would be advantageous to the Treasury, as their prices would be relatively low.

Public statements have suggested that the Treasury plans to use the buy-back program to reduce the average maturity of the public debt. This is the Treasury's prerogative, of course, but we would also like to emphasize that the Treasury market should have active, liquid issues across the maturity spectrum. We hope the Treasury does not unduly reduce the volume of longer-term issues. Moreover, altering the maturity of the Treasury debt, either wittingly or unwittingly, involves speculation about the future movement of interest rates. The Treasury has avoided such activity in the past, and it is probably wise to continue a policy of steady issuance -- and balanced retirement -- across the maturity spectrum.

The accounting issues relating to the buy-back program (premiums recorded as interest outlays) could render the effort ineffective. As you no doubt know, securities trading at a discount or close to par are limited in volume. If the Treasury were to focus its buy-back program on these issues, it would fall well shy of the desired volume of debt reduction. Resolving the accounting issue, however, should not be controversial. The program brings substantial benefit (liquid markets and the lowest possible interest rates) with few negative aspects. Regulatory approval from the Office of Management and Budget, and a statement from Congress indicating that it is not opposed, should allow the Treasury to proceed.

I hope you find these comments helpful. Please contact me if you desire more information.

Sincerely,

A handwritten signature in cursive script, appearing to read "Marcello Frustaci".

Marcello Frustaci
Senior Vice President
Primary Dealer Desk