

360 Madison Avenue  
New York, NY 10017-7111  
Telephone 646.637.9200  
Fax 646.637.9126  
[www.bondmarkets.com](http://www.bondmarkets.com)

1399 New York Avenue, NW  
Washington, DC 20005-4711  
Telephone 202.434.8400  
Fax 202.434.8456

St. Michael's House  
1 George Yard  
London EC3V 9DH England  
Telephone 44.20.77 43 93 00  
Fax 44.20.77 43 93 01



October 26, 2005

Mr. Jeff Huther  
Director  
United States Treasury Department  
1500 Pennsylvania Avenue, N.W.  
Washington D.C. 20220-0002

Re: Placement of 30-year Treasury Bond in Auction Schedule

Dear Jeff:

The Bond Market Association<sup>1</sup> (the "Association") and its Primary Dealers Committee<sup>2</sup> welcome this opportunity to comment on the placement in its auction schedule of the U.S. Treasury Department's (the "Treasury") 30-year bond once issuance resumes in February 2006. As an initial matter, we would like to commend Treasury for its recent decision to resume issuance of its 30-year bond. Such a decision will likely provide Treasury with more flexibility in managing its debt portfolio and should over time help reduce its borrowing costs and rollover risk. The results of a recent investor survey (the "Survey")<sup>3</sup> show that market participants are particularly receptive to the resumption of 30-year Treasury securities and that Treasury can expect strong demand for this maturity. After consulting with a special working group (the "30-Year Bond Working Group"),<sup>4</sup> the Association recommends that issuance of the 30-year bond should occur as part of Treasury's normal Quarterly Refunding. This recommendation raises a number of issues that Treasury should consider in making its final scheduling decision.

---

<sup>1</sup> The Association represents securities firms and banks that underwrite, distribute and trade in fixed income securities, both domestically and internationally, including all primary dealers recognized by the Federal Reserve Bank of New York. Our members are also actively involved in the funding markets for such securities, including the repurchase and securities lending markets. Further information regarding the Association, its members, and activities, can be obtained from our public website <http://www.bondmarkets.com>.

<sup>2</sup> The Primary Dealers Committee is made up of senior representatives from the primary dealers in United States government securities whose name appears on the "List of the Government Securities Dealers Reporting to the Market Reports Division of the Federal Reserve Bank of New York" and inter-dealer brokers who serve as conduits between Primary Dealers in the Treasury and federal agency securities markets.

<sup>3</sup> A detailed description of the Survey's results has also been released and is available on our website: [www.bondmarkets.com](http://www.bondmarkets.com).

<sup>4</sup> A list of the members of the 30-Year Bond Working Group is attached to this letter as appendix A.

## **Treasury 30-Year Bond and Auction Calendar**

As part of Treasury's August 2005 Quarterly Refunding Policy Statement, Treasury asked market participants for specific guidance on its auction calendar, noting that the re-introduction of its 30-year bond meant that Treasury must re-examine its current security offering calendar. As noted above, the Association believes that the 30-year bond should be issued on a biannual basis as part of Treasury's normal Quarterly Refunding in February and August. However, there are some issues that should be considered by Treasury when placing the 30-year in its auction calendar.

### **Displacement of Current Securities Offerings to Accommodate the 30-Year**

If Treasury were to issue the 30-year bond as part of its Quarterly Refunding, the question would be whether to add it to its existing refunding offering, or to have it auctioned in place of currently scheduled issuance. The Association believes that holding four coupon auctions in one week would be difficult, and therefore recommends that Treasury not proceed in this manner. Since 1980<sup>5</sup> (data only available from this point), Treasury has never held four consecutive coupon auctions during a quarterly refunding week. Some market participants have expressed concern that such a schedule of offerings would be more than could be underwritten efficiently. To accommodate the 30-year bond during Treasury's Quarterly Refunding the Association would recommend that during the months of February and August Treasury move its 5-year auction to the same week as its 2-year auction.

### **The Effect of the 30-Year on Treasury STRIPS**

Some market participants are concerned that the addition of the 30-year bond to the February/August quarterly refunding schedule could dampen the liquidity of STRIPS that fall on the May/November schedule. Treasury could address this issue in a number of ways. One suggestion is that the 30-year maturities alternate between February/August maturities and May/November maturities. Alternatively, Treasury could institute an annual or semi-annual rotation of 30-year and 30 ¼ year bond issues (for example, if the February issue is reopened in August, then the security auctioned in February 2007 would have a 30 ¼ maturity).

### **The Effect of the 30-Year on Treasury-Inflation-Protected-Securities ("TIPS")**

Additionally, Treasury may want to consider the short-term impact of a February/August issuance cycle on the auctions for 20-year TIPS securities. While the Association continues to believe that greater asset/liability management in, for example, pension management, will boost demand for long-dated securities over time, there may be some short-term impact on the demand for 20-year TIPS. One possibility would be to have the 30-year issue settle later in the month (with the auction taking place in the preceding week) but have coupon accrual starting from the 15<sup>th</sup> to ensure fungibility.

---

<sup>5</sup> See <http://www.publicdebt.treas.gov/AI/OFAuctions?form=multi&page=95>.

## Conclusion

The Association believes that the Treasury's decision to reintroduce the 30-bond will benefit Treasury over the long term with improved flexibility and less exposure to rollover risk. In addition, the demand for this security should allow it to be part of the regular refunding cycle in February and August. Finally, the Treasury should ensure that such placement in the calendar not impact the adjoining auctions.

The Association appreciates the opportunity to comment on this issue. If you have any questions on this letter, please contact me at [rtoomey@bondmarkets.com](mailto:rtoomey@bondmarkets.com) or 646-637-9224 or Brian MacWilliams at [bmacwilliams@bondmarkets.com](mailto:bmacwilliams@bondmarkets.com) or 646-637-9227.

Very truly yours,

Robert Toomey  
Vice President and Assistant General Counsel

cc: Lori Santamorena, Executive Director, *U.S. Department of the Treasury*  
Robert Elsasser, Head of Fixed Income and Foreign Exchange, *Federal Reserve Bank of New York*  
Deborah Perelmuter, Senior Vice President, *Federal Reserve Bank of New York*  
Randy Snook, Executive Vice President, *The Bond Market Association*  
Lynnette Hotchkiss, Senior Vice President, *The Bond Market Association*  
Brian MacWilliams, Senior Regulatory Policy Analyst, *The Bond Market Association*

**Members of the 30 Year Bond Working Group**

Ms. Julie W. Bauer, *Chicago Board of Trade*  
Mr. Bulent Baygun, *Barclays Capital Inc.*  
Mr. Nick Bhuta, *Morgan Stanley*  
Dr. Hayley Boesky, *Moore Capital Management, Inc.*  
Mr. Ted Breslin, *J.P. Morgan Securities Inc.*  
Mr. Robert Coughlin, *Merrill Lynch & Co., Inc.*  
Dr. Jason Evans, *Deutsche Bank AG*  
Ms. Julie Glennon, *Citigroup*  
Mr. James D. Golden, *Lehman Brothers Inc.*  
Mr. Glenn Haberbusch, *Mizuho Securities USA Inc.*  
Mr. Patrick Haskell, *HSBC Securities (USA) Inc.*  
Mr. Alex Li, *Credit Suisse First Boston*  
Mr. Gerald B. Lucas, *Banc of America Securities LLC*  
Mr. Hussein Malik, *J.P. Morgan Chase & Co.*  
Mr. Paul Mussche, *Deutsche Bank Securities Inc.*  
Mr. Mark Reilly, *Citigroup*  
Mr. John A. Roberts, *Barclays Capital Inc.*  
Mr. Tom Roth, *Dresdner Kleinwort Wasserstein Securities LLC*  
Mr. Joseph Shatz, *Merrill Lynch & Co., Inc.*  
Mr. Chris Sheehan, *HSBC Securities (USA) Inc.*  
Mr. Stephen Stanley, *RBS Greenwich Capital*  
Mr. Kenneth D. Tremain Jr., *Citigroup*  
Mr. James R. Vogel Jr., *FTN Financial*  
Mr. Kurt von Uffel, *Nomura Securities International, Inc*