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THE BOND MARKET ASSOCIATION

VIA FEDERAL EXPRESS & EMAIL

July 22, 2005

The Honorable Timothy Bitsberger
Assistant Secretary for Financial Markets
United States Treasury Department
1500 Pennsylvania Avenue, N.W.
Washington D.C. 20220-0002

Re: Resumption of Issuance of 30-year Nominal Treasury Bonds

Dear Sir:

The Bond Market Association[1] (the "Association") and its Primary Dealers Committee[2] welcome this opportunity to comment on the proposed resumption of 30-year nominal Treasury bond sales. We strongly believe that the U.S. Treasury Department (the "Treasury") should resume issuance of its 30-year bond in February 2006, since this is likely to provide the U.S. Treasury with more flexibility in managing its debt portfolio and should help reduce borrowing costs and rollover risk. Given the current fiscal outlook and increasing demand for low risk, long-dated assets, resuming issuance of 30-year nominal bonds should help diversify Treasury's investor base. With the assistance of a special working group (the "30-Year Bond Working Group"),[3] we have gathered comments from dealers and investors and are pleased to report the results of a recent survey (the "Survey")[4] on the receptiveness of market participants to the resumption of issuance of 30-year Treasury securities. We also offer some additional suggestions on how the Treasury might structure its issuance to attract a broader range of potential investors. We share the Treasury's view that further development of this market segment will require close collaboration between the

[1] 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.

[2] 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.

[3] A list of the members of the 30-Year Bond Working Group is attached to this letter as appendix A.

[4] A detailed description of the Survey's results has also been released and is available on our website: www.bondmarkets.com.

Treasury, buy-side investors and primary dealers. It is in this spirit of cooperation and partnership that we respectfully submit our views on this important issue. In the event you have any follow-up questions, we would be more than happy to meet in person with you and your colleagues to discuss our recommendations.

Executive Summary

The Association and its Primary Dealers Committee recommend that the U.S. Treasury introduce a new 30-year nominal bond in February 2006 with an initial issue size of between $12 –18 billion and also recommend a reopening size between $7- 15 billion. Given the strong demand for long-dated maturities, we also recommend that current issuance levels should be maintained for the 10-year note and for 10-year and 20-Year TIPS. Choosing which nominal and TIPS maturities to issue and optimal issue sizes ultimately depends on the particular debt management strategy Treasury is pursuing and Treasury's ever-changing financing needs. In that context, there are some compelling arguments for reintroducing the long bond early next year. We base our recommendation on the following:

- *A recent survey sponsored by the Association suggests potentially strong and sustained demand in the years ahead for long-dated Treasuries.*

- *The investor base for Treasury securities is overwhelmingly institutional. Resuming 30-year bond issuance, however, would serve to broaden the investor base for Treasuries, since this maturity is highly attractive to an increasingly older investor base, whose demographic dimensions are projected to change dramatically in the near future. The broadening and diversification of the investor base would be in Treasury's long-run interest.*

- *Resuming 30-year bond issuance could reduce Treasury's exposure to interest rate volatility and smooth out borrowing costs, even if long-term interest rates normalize from current depressed levels. A 30-year bond should help reduce the interest rate rollover risk contained in the present financing program.*

- *Resuming 30-year bond issuance can help improve Treasury's financing flexibility and reduce Treasury's potential exposure to exogenous shocks.*

- *The return of the 30-year bond would help maintain the average maturity of Treasury's debt at reasonable levels.*

- *Resuming 30-year bond issuance would enhance the positive externalities that Treasury indirectly benefits from, such as:*

    - *Reestablishing an actively traded 30-year Treasury bond will facilitate a more current constant maturity yield point for the 30-year sector and thereby help preserves the Treasury yield curve's role as a critical benchmark and effective interest rate risk management tool.*

- *The reintroduction of the 30-year Treasury bond is likely to spur the issuance of more long-dated corporate bonds, and thus ease the sharp demand-supply mismatch currently existing at the long end of the yield curve.*

A. Recommendation

Having considered both the potential benefits and costs associated with expanding the nominal Treasury issuance program and having surveyed a broad range of market participants, the Association recommends that Treasury demonstrate its on-going commitment to the long-end of the Treasury market by reintroducing its 30-year Treasury bond. We discuss herein certain advantages of issuing a longer-dated maturity and believe that there are several cogent reasons at this juncture to support resuming auctions of 30-year nominal Treasury securities. Specifically, the Association urges the Treasury to bring back the 30-year issue while maintaining or increasing its current issuance of 10-year nominal and 10-year and 20-year TIPS securities.

B. Reasons Treasury Should Resume Issuance of its 30-year Bond

Listed below are some of the reasons why the Primary Dealers Committee and the 30-Year Bond Working Group believe that this would be an appropriate time to bring back the 30-year maturity.

I. The Association's Recent Survey Indicates Strong Investor Demand for 30-year Treasuries

One of the primary reasons the Association believes that resumption of 30-year bond sales is warranted is that our recent Survey[5] confirmed very strong investor demand for this product.[6] More specifically:

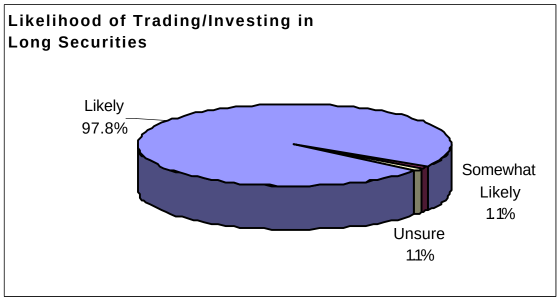
- The poll found that 98 percent of firms would be more likely to trade and invest in long-term securities if the 30-year Treasury bond was reintroduced, while 84 percent said that they would be more likely to trade Treasury bond futures in this case.

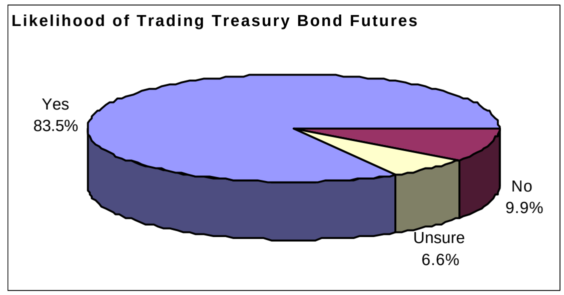
[5] The Association's Survey was an attempt to better assess potential demand for this product and was structured in two parts. In the first part of the survey, we sought information on the respondent firms' lines of business and the specific nature of respondents' responsibilities at their organizations. The second part of the Survey was a series of questions regarding the respondents' views on some key issues, including their inclination to trade and invest in long-duration securities and the effect on Treasury futures of a reintroduction of the 30-year bond.

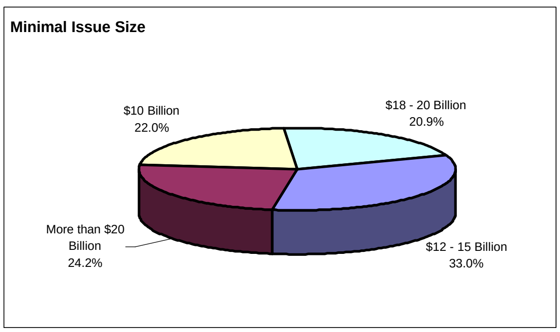
[6] The Survey also posed several detailed questions about the optimal issuance cycle and the minimum issue size for a 30-year Treasury bond as well as the implications of such issuance for the long-dated corporate debt market. The responses to these other questions are discussed later in this letter.

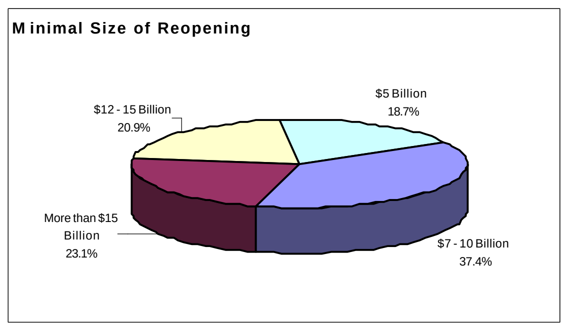
- 80 percent of Survey participants thought that a February 2006 new issue with an August reopening would be appropriate. With respect to a minimum acceptable initial issue size, 33 percent regarded $12-15 billion as appropriate, but 45 percent favored a larger size.

- On the issue of reopening size, 56 percent felt that a reopening size in the range of $5-10 billion would be acceptable and 44 percent favored a higher amount.









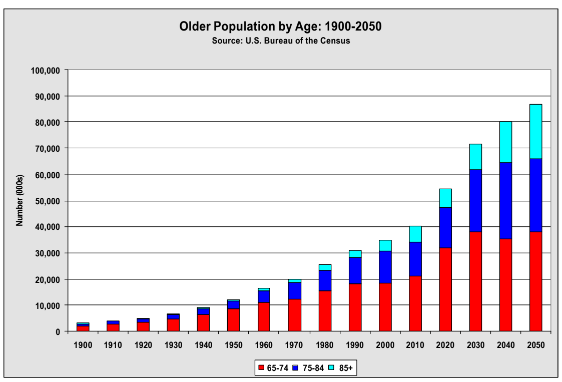
In general, 66 percent of the Survey's respondents thought that $30 billion of new issuance per year would be sufficient to create a liquid "on-the-run" security that would support the Treasury yield curve's continued role as a risk management tool and benchmark. Simultaneously, 79 percent did not think that resumption of 30-year bond issuance would reduce the benchmark status of the existing 10-year note.

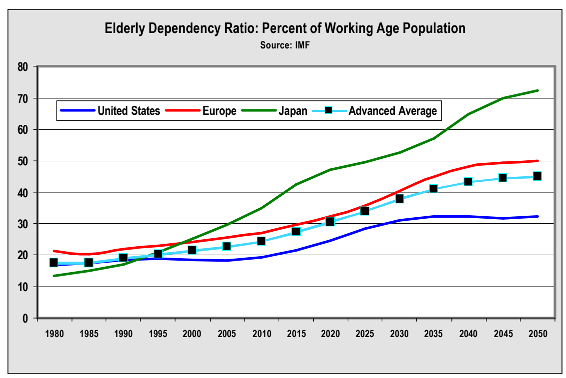
The overall Survey results suggest a likely warm reception from buyers if the 30-year Treasury bond is reintroduced. Indeed, the Survey may even underestimate potential investor demand, since it may not capture the views of those who have not yet been actively involved in Treasury market. The next section highlights the major demographic transition that is likely to affect the fixed income market as "baby boomers" (those born between 1946 to 1964) cross into retirement age by 2010. We also comment on the financial market implications of global aging in the developed world.

II. There is An Increasing and Sustainable Demand For Long-Dated Treasuries

Based on already published research, there is likely to be a substantial increase in demand for high-credit-quality, long-dated government bonds in the coming years. In fact, other highly active government debt issuers have recently sought to take advantage of this trend by issuing longer dated debt. Therefore, 2006 represents an opportune time for the Treasury to diversify its investor base by resuming bond issuance.

Population aging dynamics: The world is in the throes of a major demographic transition, with industrial countries across the globe facing an unprecedented aging of their populations. According to U.S. Census Bureau figures, the percentage of the U.S. population 65 years old or older will jump to 20 percent by 2030 from 12.4 percent in 2000. The aging of the European population will be even more dramatic, with 23.5 percent of the population 65 years old or older by 2030, from 14.7 percent in 2000. While the percentages are lower elsewhere, countries in Asia, Latin America, Oceania and the Middle East will also see a doubling of their above-65 population share.





A recent International Monetary Fund ("IMF") study highlighted the challenges imposed by the near simultaneous aging of the industrialized country population.[7] While the U.S. is relatively "younger" than other developed countries, the next decade will see the beginning of a significant, long-lasting shift in the age profile of the U.S. population as well (see above graphs). This stems from the aging of the "baby boom" generation (or the approximately 76 million people born between 1946 through 1964), who comprise an unusually large 28 percent of the population. Baby boomers now range between 41 to 59 years old and are presently in their prime saving years. The IMF estimates that the savings of this group will continue to rise through 2010 and decline modestly thereafter, as the oldest of this group hit 65. From the perspective of Treasuries, the following potential trends can identified as the baby boom population transitions out of the labor force into retirement:

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[7] <u>See</u> Global Demographic Transition Study (contained in the September 2004 World Economic Outlook) available at http://www.imf.org/external/pubs/ft/weo/2004/02/index.htm).

- The asset allocation preferences of the baby boom group will play an increasing role in financial market developments. Conventional wisdom among financial planners deems overexposure to equities as risky with impending retirement, which presumes that those nearing retirement are looking for less volatile investments that simultaneously provide a less volatile long-term return profile. Standard "rules of thumb" used to determine equity versus bond allocations as a percentage of an individual, financial portfolios vary, but broad based "age-dependent" guidelines exist, such as: [8]

The Accumulation Years (ages 20 to 49)	Stocks: 80%; Bonds 20%
The Transition Years (ages 50 to 59)	Stocks: 60%; Bonds 40%
The Early Retirement Years (ages 60 to 74)	Stocks: 40%; Bonds 60%
The Later Retirement Years (ages 75+)	Stocks: 20%; Bonds 80%

- A study of actual asset positions suggests a stock overweight in household portfolios. The Federal Reserve Board's 2001 Survey of Consumer Finances[9] showed that 56.1 percent of the 55 to 64 age group had their financial assets tied up in equities, while the 65-74 age group had a 55.1 percent exposure. In the 45-54 year segment, the equity exposure was the highest at 59.1 percent. Thus, during the next few years, we could see considerable portfolio diversification out of equities into fixed income. While portfolio studies are somewhat inconclusive on this front, we note that the sheer size of the baby boom generation suggests strengthening demand for fixed-income products, since the "prime" savings group is currently perceived as being "overexposed" to equities and underweight in bonds.[10]

- Over the next 50 years, the number of people in the U.S. aged 65 and older will more than double, while the number of adults under age 65 will grow by less than 20 percent; the dependency ratio (the ratio of pensioners to the working age population) is projected to rise from about 18 percent currently to over 30 percent by 2030. Rising dependency ratios in the U.S. are a further negative for the fiscal outlook. The maximum financing pressures caused by the retirement of the baby boomers is expected to show up in about 10 years. These pressures should ease up in about 30 years when the baby boomer "echo generation" arrives at its prime earnings age. So, a longer-term view of financing needs with such

[8] See John Ameriks and Stephen P. Zeldes, "How Do Household Portfolio Shares Vary With Age?" TIAA–CREF Institute Working Paper 6-120101 available at http://www.tiaa-crefinstitute.org/Publications/wkpapers/wp_pdfs/age092500.pdf

[9] Available at http://www.federalreserve.gov/pubs/oss/oss2/2001/bull0103.pdf

[10] A May 2005 research note by Merrill Lynch entitled "Demographics and Financial Assets: Long-Term Implications are Bullish for Bonds" highlighted these features as well, with the potential bond-buyer share of the population set to rise quite dramatically. Also, an IMF study based on 14 advanced countries showed a positive link between real stock and bond prices and the share of population aged 40 to 64.

a changing demographic landscape would argue for replacing some shorter maturity debt with 30-year bond issues.

- The increases in longevity have exceeded the actuarial assumptions made in defined benefit ("DB") pension plans, leading to an unexpected growth in pension liabilities. According to the Pension Benefit Guaranty Corporation ("PBGC"), such plans now face an asset-liability mismatch and underfunding in excess of $600 billion.[11] Current reform proposals would increase the demand for long duration assets from this sector. In addition, the stresses placed by insolvent DB plans and their takeover by the PBGC raised the accumulated deficit of this agency to $23.5 billion in FY 2004. Its stated response has been to increase its exposure to long-dated Treasuries, a process that has just begun.[12]

- The aging populations in other countries also create strong non-U.S. demand for U.S. Treasuries. In this context, we note that differences in rates of return in non-U.S. markets continue to favor U.S. government debt. Thus, the non-U.S. private investor base for Treasuries (individuals and pension funds) could grow in strength, helping the Treasury in its objective of diversifying its investor base. This is particularly important at this time, since foreign central bank purchases – the dominant demand source from the middle of 2002 through 2004 – has been weaker this year. We note that worries about foreign official diversification out of Treasuries have often dominated market moves.[13] Thus, it would be prudent to tap into the latent demand expressed among private, non-U.S. investors.

Learning from the Recent Experiences of Other Active Governmental Issuers: The growing global investor interest in safe, long-maturity fixed income instruments has led other leading sovereign debt issuers to successfully tap this new demand. Several European governments only recently added super long-dated debt to their issuance programs. For example:

- In February 2005, the French Trésor introduced a new 50-year euro-denominated bond, in response to the positive feedback received from a survey of investors, including pension funds, regarding the demand for a long-dated bond. A confirmation of the strength of the demand for ultra-

[11] More specifically, the PBGC estimates that the total underfunding in single-employer plans exceeded $450 billion as of September 30, 2004 (versus $350 billion in September 2003). Total underfunding of multiemployer plans was estimated to exceed $150 billion at September 30, 2004 (versus an estimate of $100 billion in September 2003).

[12] The PBGC's November 2004 statement noted: "During 2004, PBGC adopted a new investment policy to better manage the financial risks facing the federal pension insurance program. PBGC's new policy will reduce balance sheet volatility arising from a mismatch between assets and liabilities by increasing investment in duration-matched fixed-income securities and by decreasing the percentage of assets invested in equities to between 15 percent to 25 percent of total invested assets." The equity allocation was 37 percent at the end of FY 2003 and had moved down to 30 percent by the end of FY 2004.

[13] We note that market psyche remains very sensitive to the perceived foreign official participation in Treasury auctions as measured by the reaction to announcements about indirect purchases.

long 50-year debt was seen in the strong interest in the Trésor's €6 billion April 2055 OAT sale. This offering garnered a strong €20 billion in bids and was priced at a surprisingly tight 3 basis points over the 30-year 2035 OAT, with a yield of 4.21 percent.

- The United Kingdom's Debt Management Office ("DMO") commenced issuance of 50-year conventional gilts on May 26, 2005. In addition, the DMO stated that it may also issue 50-year index-linked gilts later in the year. Their market participant surveys also confirmed strong investor interest, particularly from the pension industry, for long-dated, high-quality bonds.

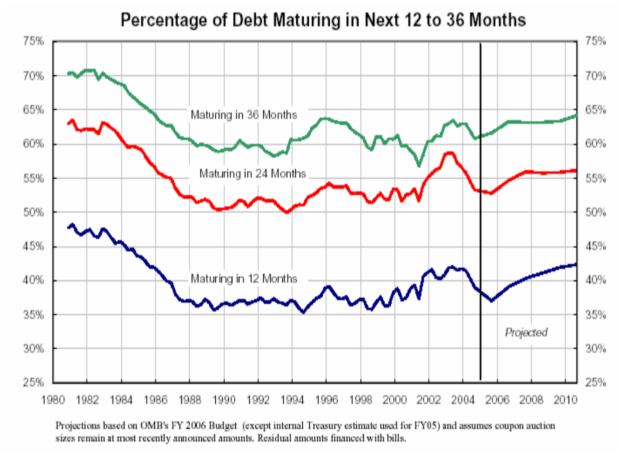
- To specifically accommodate strong investor demand, Germany's Finance Agency on June 23, 2005 announced that it plans to sell an additional €5 billion of its existing benchmark 30-year bond, bringing the year-to-date 2005 total to €11 billion.

In reviewing the development of markets for long-dated and index-linked bonds in its recent Global Financial Stability Report, the IMF noted that long bonds are "essential to risk management in the pension fund industry."[14] Furthermore, the continued development of such instruments is viewed as "an important complement to a more risk-based regulatory framework: they facilitate and encourage pension funds to better match their assets and long-term liabilities."

In this context, it is also pertinent to note that, in stark contrast to all of the other leading issuers of government debt, the average maturity of Treasury's outstanding debt has actually been dropping since 2001. As one primary dealer recently noted, "The reissuance of the 30-year bond should reverse the downward trend in the absolute amount of Treasury debt outstanding with more than 10 years to maturity."[15] In this context, it is pertinent to note that simply increasing the scale of 10-year issues would require significantly more effort on Treasury's part than issuing a 30-year bond that is better aligned with investor interests. Even so, the percentage of outstanding Treasury supply with maturities of ten years or longer will likely diminish.

[14] The IMF's April 2005 Global Financial Stability Report noted that "In many countries, pension funds continue to face important challenges, including the adequacy of their funding levels, and the need to ensure that they will be in a better position to absorb market movements. In this context, we welcome the above measures aimed at further focusing the industry and its regulators on risk management and the development of prudent funding cushions, and therefore on further promoting financial stability." Available at http://www.imf.org/external/pubs/ft/gfsr.

[15] See Joseph Shatz and Gregory Elders, "Gobbling Up 30-Yr Bond Reissuance" Merrill Lynch Fixed Income Strategy May 6, 2005 and Appendix B.



III. Improving Treasury's Financing: More Flexibility, Reduced Volatility

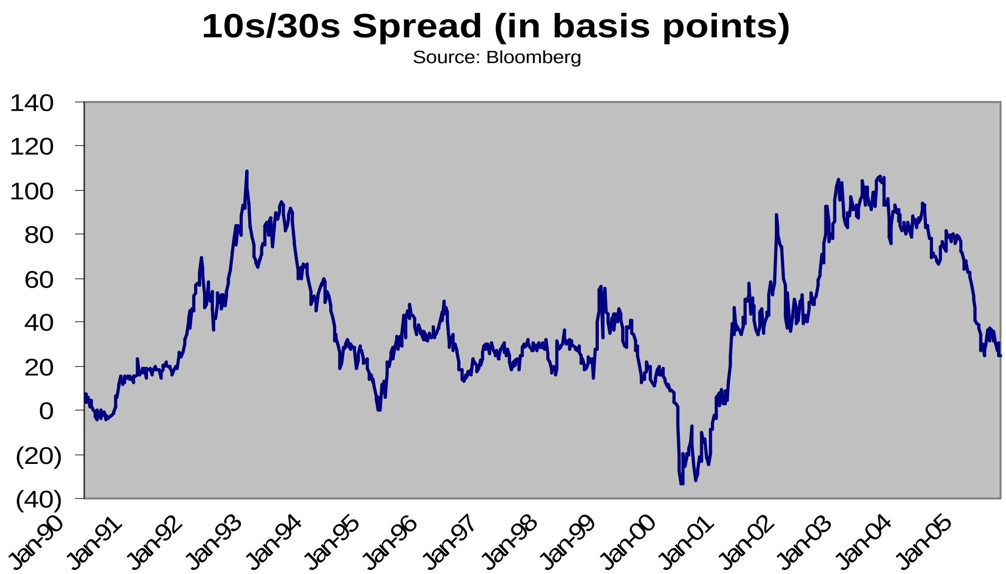
The Association believes that the coming year is a particularly opportune time for Treasury to reintroduce the 30-year bond.

The U.S. macroeconomy has stabilized. We have seen steady, healthy economic growth during the past few years. Inflation appears to be well-contained, despite high oil prices. The underlying trend for job creation has firmed, allowing the Federal Reserve to proceed on a gentle rate hike path. The 225 basis points of Fed tightening have not surfaced in long-term interest rates as yet, partly due to the easing of inflation worries and the strong demand for scarce long-duration assets. However, forecasters continue to expect rising long-term interest rates. For instance, the Association's most recent Quarterly Government Securities Issuance and Rates Forecast projected a yield on 10-year Treasury notes in the vicinity of 4.8 percent by March 2006, with a Federal Funds rate target of 4.0 percent, or 75 basis points higher than today.[16]

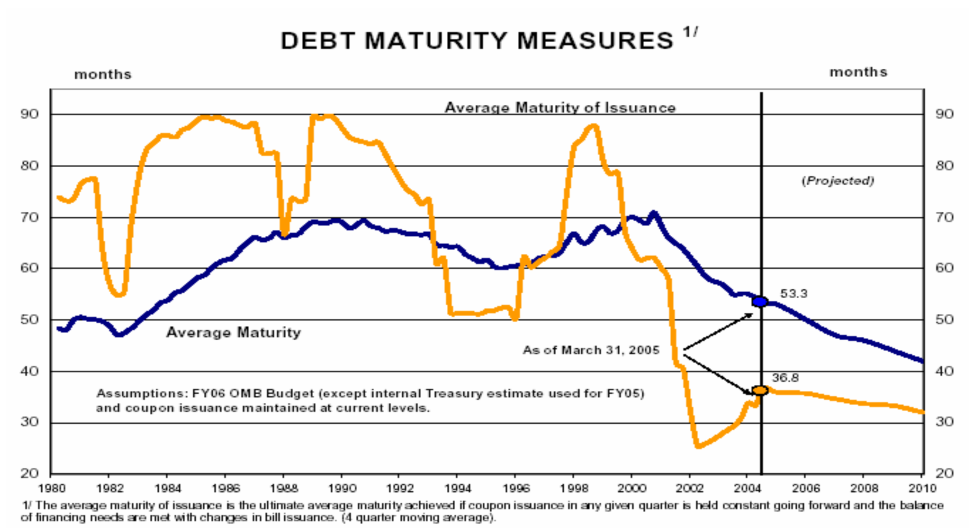
Resuming Issuance of a 30-Year Bond would Reduce Interest Rate Rollover Risk: The shorter the average maturity of Treasury's debt portfolio, the greater exposure taxpayers has to "rollover risk." Treasury faces rollover risk because it refinances the vast majority of its outstanding debt when it matures by issuing new debt at prevailing interest rates. Consequently, Treasury–and U.S. taxpayers–face the risk that interest rates could rise at the time new bonds are issued, thus forcing the government to pay higher financing costs. By resuming issuance of 30-year bonds, Treasury has the ability to more permanently "lock-in" a low rate for a larger portion of its outstanding debt, due to the current low yields being accepted by holders of long-duration Treasury securities.

[16] Long-range forecasts from a recent Blue Chip survey project a Fed funds rate of 4.5 percent and 10-year Treasury yields of 5.5 percent, with the 20-year Treasury yield hovering about 40 bps higher, or close to the current spread.

Furthermore, we note that the sharp narrowing of the spread between the yields on ten and 30-year Treasury securities during the past few months suggests that the Treasury's "opportunity" cost of issuing 30-year bonds has shrunk considerably. Thus, a 30-year maturity should only marginally increase financing costs to Treasury, primarily because the spread between 10- and 30-year yields has narrowed significantly and should continue to do so as we approach the proposed February 2006 issuance date.



More flexibility: When the 30-year was discontinued in 2001, the Treasury was legitimately concerned about its ability to maintain adequate issuance sizes in all the securities it issued. With the average maturity of Treasury debt now much lower (see below) than it was in November 2001 and thus with far more debt maturing each year, Treasury has more flexibility in its issuance calendar than it had four years ago. As a result, Treasury's previous concern over its ability to issue in adequate size along the entire benchmark curve is no longer an issue.



The above factors lead us to believe that instead of issuing shorter maturity bonds, preserving the option of issuing one or more 30-year bonds each year is a prudent debt management strategy that offers Treasury and U.S. taxpayers enhanced protection against a likely rising rate environment over the next several years. We also believe that any added short-term cost should prove minimal in the context of Treasury's overall long-term debt management strategy.

IV. Positive Externalities from 30-year Issuance

The Association feels strongly that Treasury's debt management policy should not ignore but rather optimize certain long-term benefits that Treasury indirectly accrues from the multiple roles that Treasury securities play–as a pricing benchmark, as a hedge instrument and as preferred collateral–in the U.S. and global financial markets. These factors do not directly increase investor demand for Treasury securities at an auction. However, they do indirectly contribute to reducing Treasury's overall borrowing costs by allowing buy-and-hold investors to achieve additional returns, achieved by tapping into short-term changes in demand for certain collateral from the repo and securities lending, futures and derivatives markets. It is well known that Treasury securities– especially long dated Treasury securities–play a unique and crucial role as a readily available pricing benchmark, credit risk free interest rate risk management tool and preferred form of collateral in securities financing and derivatives transactions. Resuming the issuance of the 30-year bond would preserve and enhance the Treasury's constant maturity yield curve–and the on-the-run securities upon which it is based–as *the* unchallenged benchmark for credit-risk-free, U.S. dollar interest rates.

Policymakers should not ignore the fact that on-the-run 2-, 3-, 5-, 10- and 30-year Treasury securities are now unchallenged as the most preferred hedging and pricing instrument for market makers and speculators in the global fixed income markets. The fact remains that no other security and no other issuer can fill the role at the long-end of the yield curve that the 30-year U.S. Treasury bond continues to serve, despite the absence of a new issue in nearly 5 years. Nor can any other issuer offer large global investors the same sort of regular and predictable issuance of a very large, liquid and risk-free dollar asset. There are only a handful of corporations left with triple-A credit ratings, and they issue long-term debt opportunistically, infrequently, and in relatively small volume. Moreover, even triple-A companies are not immune from credit issues. Government-sponsored enterprises like Fannie Mae, Freddie Mac and the Federal Home Loan Banks also issue very little 30-year debt. In addition, their securities are not backed by the federal government. Many asset-backed securities (ABS) carry triple-A ratings, but virtually no ABS has long-term maturities.

The 30-year bond is (and will continue to be) important in pricing other long-term, dollar-denominated fixed-income securities. The Treasury securities market in general is a useful benchmark for pricing the debt of other issuers. Currently, there is no useful 30-year benchmark by which to price corporate and other long-term bonds. As part of our Survey, we queried market participants regarding trends in long-dated corporate debt markets and the role of Treasuries as a hedging and pricing instrument for the corporate market. The majority noted that a resumption of regular issuance by Treasury would result in improved liquidity and more hedging options, along with more efficient pricing. Indeed, 60 percent of those surveyed believe that new-issue corporates would be immediately priced off the 30-year bond once a new bond is issued. A resumption of issuance would, therefore, offer both the Treasury and corporations the ability to "lock in" what is perceived as being "historically low" long-term rates. Another benefit of more long-term issuance would be a better matching by investors between their assets and their liabilities. Over 50 percent of respondents believed that that there is already an asset allocation trend under way out of shorter duration assets.

V. Other Factors Leading to Greater Demand

There also continues to be a growing demand globally among pension funds, insurance companies and others for highly rated long-term liquid instruments. The 30-year Treasury bond is an ideal asset for pension funds, insurance companies and other firms needing to engage in more efficient asset/liability management. Indeed, while the investor base for Treasury securities is likely to become more diverse over time, one of the largest pools of natural buyers of long-dated Treasury securities remains pension funds looking to better manage their long-dated liabilities. Given recent legislative proposals in the U.S. Congress to use returns on highly rated corporate securities as the yardstick for ensuring that private pension plans are adequately funded, such plans may increasingly decide to have larger percentages of their portfolios allocated to Treasuries, as already noted earlier. Government pension reform in the U.S. could also be a major driver of future demand for the product.

Another factor is that derivatives markets can be a powerful catalyst that brings new participants and additional liquidity to the cash markets. Therefore, the development of a more complete Treasury market should, in time, generate additional demand for U.S. Treasuries securities as a hedging or benchmark/reference instrument. This would help take some of the pressure off the 10-year sector and help support the Federal Reserve in executing monetary policy. This, in turn, could improve liquidity and attract new investors to both the cash and derivatives markets.

VI. The Association Believes That Introducing a New Maturity Would Send a Strong Message to Investors that Treasury Remains Committed to Maintaining the Average Maturity of Its Debt Portfolio

Finally, providing market participants with more choices in where they can invest along the yield curve sends a signal to investors and other parties that depend on the secondary market for U.S. Treasury securities. First, it signals that Treasury is committed to being an active issuer over the long-term and that it values having a diverse user base that includes not only "buy-and-hold" investors but also fund managers, speculators, hedgers, arbitrage investors, leverage investors and dealers. Second, it shows that Treasury is willing to accommodate the wide ranging demands of its diverse, global, direct and indirect investor base. For instance, Treasury has done an excellent job demonstrating its long-term commitment to the TIPS product "through gradually larger issuance coupled with renewed efforts to educate investors on the merits of [TIPS] as a real rate asset class and a portfolio risk management tool."[17] It should be even more willing to take the same long run view for investors and others seeking to invest in or utilize a long-dated, credit-risk-free nominal asset.

VII. Conclusion

The Association continues to believe that reintroducing the 30-year Treasury bond will help reduce Treasury's overall cost of funding by attracting new investors and facilitate better liability management. One of the most obvious reasons for resuming 30-year issuance is that this maturity attracts new investors who normally do not invest in shorter-maturity Treasuries, because the 30-year Treasury bond has risk/return characteristics that are quite unique. As a result, issuing 30-year securities should not undermine demand for Treasury's other maturities. Instead, it will expand the universe of potential buyers for Treasury securities by attracting investors with different maturity needs and help reduce Treasury's average cost of funding.

By facilitating the growth of the 30-year Treasury as a distinct asset class, Treasury benefits by having a more diversified source of funding. This is similar in spirit to the Treasury's issuing a broad range of TIPS. Further, introducing a 30-year Treasury should only marginally increase financing costs to Treasury, since the spread between yields on 10- and 30-year securities has already narrowed significantly and should continue to do so as we move closer to the proposed February 2006 issuance date.

The Association also recognizes that Treasury must sometimes balance competing priorities in setting its debt management policy. While Treasury's chief objective is to obtain the lowest possible cost of funding over time for the benefit of U.S. taxpayers, its future borrowing needs are understandably difficult to

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[17] See Letter from Eric L. Foster to The Honorable Brian C. Roseboro dated April 9, 2002.

project. In this regard, the 30-year Treasury bond is a better liability match to the Treasury's assets than other maturities.

The Association greatly appreciates this opportunity to comment on this important issue. If you have any questions regarding this letter, please feel free to contact me or my colleagues Eric L. Foster at 646.637.9222 or efoster@bondmarkets.com or Michael Decker at 202.434.8400 or at mdecker@bondmarkets.com.

Sincerely,

//Micah Green//

Micah Green
President

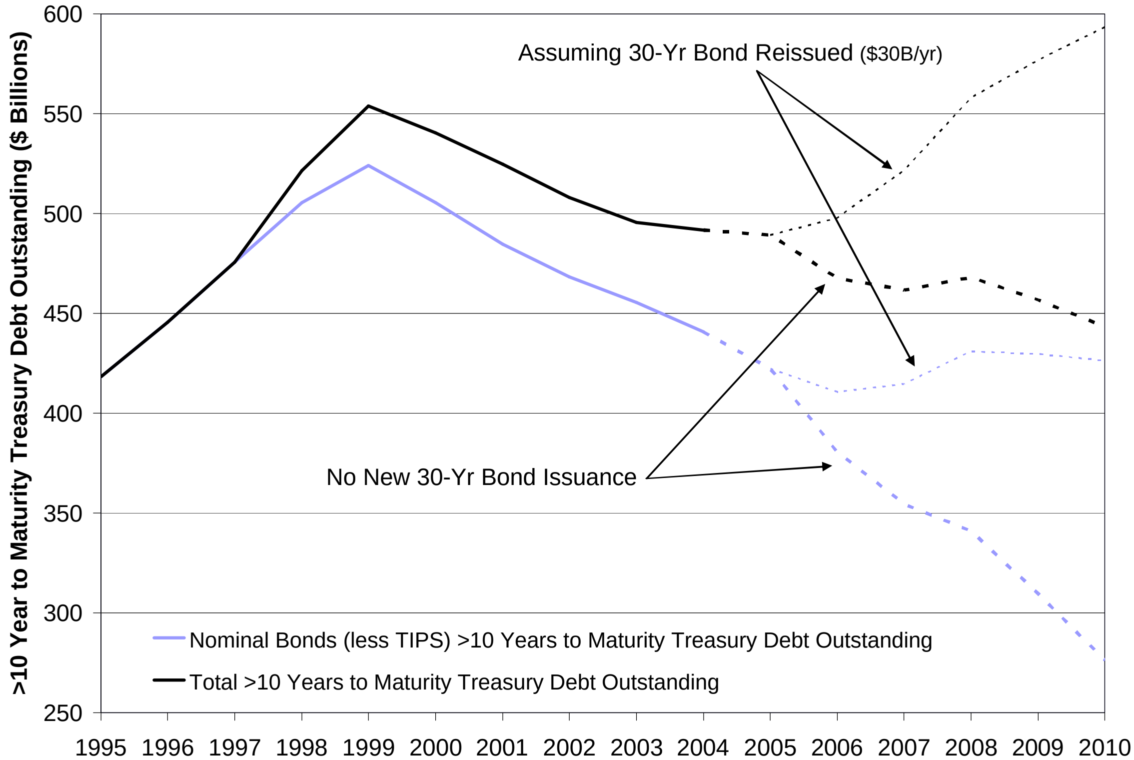
cc: Mr. Jeff Huther, *U.S. Department of the Treasury*
Government Division Executive Committee
Primary Dealers Committee
30 Year Bond Working Group
Government Securities Research & Strategist Committee
Senior Staff, *The Bond Market Association*
Legal & Professional Staff, *The Bond Market Association*

APPENDIX A

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 Haberbush, *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.*

APPENDIX B



Amounts outstanding based on original auction sizes not including Fed add-ons.