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Mr. Matthew S. Rutherford
Assistant Secretary for Financial Markets
Department of the Treasury
Bureau of the Public Debt
Government Securities Regulations Staff
799 9th Street N.W.
Washington, DC 20239-0001

Submitted electronically through http://www.regulations.gov

Re: Advance Notice of Proposed Rule Making - Sale and Issue of Marketable Book-Entry Treasury Bills, Notes and Bonds (Docket No. BPD-2012-0002; FR Doc. 2012-29307)

Dear Mr. Rutherford:

Fidelity Investments ("Fidelity")[1] appreciates the opportunity to provide comments to the Treasury Department ("Treasury") on its Advance Notice of Proposed Rule Making regarding the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (the "Proposed Rules").[2] The Proposed Rules follow the Treasury's March 2012 Notice and Request for Information (the "Interim Request")[3] on this issue, to which Fidelity submitted comments (our "2012 Letter")[4]. Fidelity serves as the investment adviser to a broad array of mutual funds and institutional portfolios that currently invest in Treasury securities and other money market instruments.

[1] Fidelity was founded in 1946 in the United States and is one of the world's largest providers of financial services, with assets under administration of over $3.8 trillion, including managed assets of over $1.6 trillion. Fidelity provides investment management, retirement planning, portfolio guidance, brokerage, benefits outsourcing and many other financial products and services to more than 20 million individuals and institutions, as well as through 5,000 intermediary firms.
[2] Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds, 77 Fed. Reg. 72278 (Dec. 5, 2012), *available at* http://www.gpo.gov/fdsys/pkg/FR-2012-12-05/pdf/2012-29307.pdf.
[3] Public Input on the Development and Potential Issuance of Treasury Floating Rate Notes, 77 Fed. Reg. 16116 (Mar. 19, 2012), *available at* http://www.treasurydirect.gov/instit/statreg/auctreg//RFIFRN.pdf.
[4] Letter from Scott C. Goebel, Senior Vice President and General Counsel, on behalf of Fidelity Investments, to Mary J. Miller, Assistant Secretary for Financial Markets, Department of the Treasury (Apr. 18, 2012), *available at* http://www.regulations.gov/#!documentDetail;D=BPD-2012-0001-0007.

The Proposed Rules solicit comments on the design details, terms and conditions, and other features of a new type of security – Treasury Floating Rate Notes ("Treasury FRNs"). Fidelity generally supports the issuance of Treasury FRNs. We continue to believe that Treasury FRNs, if appropriately structured, could be an attractive investment for both money market mutual funds (which operate in accordance with Rule 2a-7 under the Investment Company Act of 1940 ("Rule 2a-7")[5]) and a broader investor base. Treasury FRNs would increase the supply of eligible investment products available to money market mutual funds, particularly for those funds that have a mandate to invest only in securities issued by the U.S. Treasury (thereby increasing the funds' investment flexibility). Based on our evaluation of the proposed terms and features of the Treasury FRNs described in the Proposed Rules, we set forth in this letter our observations and suggestions (which should be read together with the comments and recommendations that we provided in our 2012 Letter) regarding some of the questions raised by the Treasury in the Proposed Rules.

General Comments

Fidelity generally agrees with the Treasury's proposed structure for Treasury FRNs. Our 2012 Letter reviews the important aspects of Rule 2a-7 that should be considered in structuring the Treasury FRNs. Imposing a daily interest rate reset feature will maximize a money market mutual fund's ability to hold larger Treasury positions and will reduce the impact to a money market mutual fund's dollar weighted-average portfolio maturity ("DWAM") requirements. However, as discussed below under the heading "Maturities", Fidelity disagrees with the proposal for Treasury FRNs to have a two-year initial maturity because this will limit the amount of Treasury FRNs a money market mutual fund will have the capacity to purchase in light of each such fund's dollar-weighted average portfolio life ("WAL") requirement.

To attract money market mutual fund investors, we recommend that the Treasury structure Treasury FRNs with a coupon rate that has a floor of zero, as money market mutual funds are very unlikely to invest in a negative yielding security. We also recommend that the tenor of the underlying Index Rate match the proposed daily reset frequency (although we do not anticipate any issues with forward settling trades with a one day look back). We would prefer monthly interest payments rather than quarterly for the compounding effect and interest should continue to accrue on non–business days. We believe that the Auction Technique, Frequency and Settlement, as described in the Proposed Rules, are consistent with current market practices for debt issuances by the Treasury. We do not anticipate that our money market mutual funds would have any interest in purchasing a floating interest rate strip.

[5] Title 17, Part 270.2a-7 of the Code of Federal Regulations [17 CFR 270.2a-7 Money Market Funds].

We offer the following comments and recommendations on the Proposed Rules as they relate to the Index Rate, Reopenings, Offering Amounts and Maturities:

Index Rate:

The Proposed Rules seek comment on the appropriate reference rates for Treasury FRNs. Fidelity believes that the DTCC GCF (General Collateral Finance) Repo Treasury Index (the "Repo Treasury Index") continues to be the most attractive reference rate to apply to Treasury FRNs. The Repo Treasury Index is market-based, with transparent pricing that should attract a broader investor base than other possible reference rates, which over time will result in the lowest borrowing costs to Treasury. We discussed the relative merits of the Repo Treasury Index and Treasury Bill Index in our 2012 Letter. We set forth below some additional views with respect to the Repo Treasury Index, the Treasury Bill Yield and the Treasury General Collateral (GC) Rate.

(a) The Repo Treasury Index: The Repo Treasury Index is a short-term investment benchmark that provides a highly transparent view of the repurchase agreement trading activity in government securities on a daily basis.

The tenor of the Repo Treasury Index matches the proposed daily reset frequency of the Treasury FRNs, thereby eliminating any curve mismatch. The Repo Treasury Index will appeal to investors with broad investment mandates, not just to money market mutual funds or those other investors that invest primarily in government securities, thus expanding the investor base. In particular, based on our discussions with other market participants, we believe that a Treasury FRN tied to the Repo Treasury Index will appeal to the dealer community as a means to hedge funding risks. The Repo Treasury Index is already an established and viable index, and we anticipate that, during the period prior to the issuance of the first Treasury FRNs, the confidence of market participants in the Repo Treasury Index will grow as a robust futures market develops. Additionally, using the Repo Treasury Index as the benchmark for Treasury FRNs may help establish this index as a viable alternative to LIBOR for purposes of pricing securities with a floating interest rate. This development could broaden the investor base and thereby enhance the liquidity of any Treasury FRNs based on the Repo Treasury Index and result in competitive aggressive auctions, thereby leading to lower borrowing costs to Treasury.

(b) Treasury Bill Yield: Although a reference rate based on a Treasury Bill index reflects a broad and transparent market, the potential investor base for this product may be limited to existing buyers of short-term Treasury Bills. The Treasury has proposed that the index would reset daily, but because it is based on the 13-Week Treasury Bill auction rate, the rate is essentially locked in for a week, based on the current frequency of the relevant auctions. In periods of technical shocks, this less responsive reset feature could result in higher costs for Treasury versus the daily rate adjustment of the Repo Treasury Index that would reflect real-time market conditions. Moreover, as curves typically steepen in a rising interest rate environment, the Treasury may experience higher funding costs reflecting the term premium embedded in the 13-week Treasury Bill rate, which could result in higher financing costs.

(c) Treasury GC Rate: Some of the disadvantages of an index rate based on a Treasury GC Rate include: (i) the Treasury GC Rate is not published; (ii) the Treasury GC Rate is not an established trading index and, accordingly, the potential investor base for this product may be limited; (iii) there is no published historical data for the Treasury GC Rate, so market understanding of its volatility will be limited; and (iv) the potential investor base may be limited to existing buyers of short-term treasury bills or investors in repurchase transactions collateralized by Treasury securities.

Maturities

The Treasury's proposal that Treasury FRNs have a two-year initial maturity will limit the amount of Treasury FRNs that a money market mutual fund will be able to purchase.

As discussed in our 2012 Letter, Rule 2a-7 requires a money market mutual fund to maintain a WAL that does not exceed 120 days (without taking into account any interest rate adjustments). In the context of Treasury FRNs, the shorter the period remaining until final maturity, the less impact the security will have on a money market mutual fund's aggregate WAL calculation. For example, if a money market mutual fund reallocates ten percent of its assets from its cash holdings toward the purchase of a Treasury FRN that matures in one year, then it will add 36.5 days (10% x 365 days) to its WAL at the time of purchase. If the fund allocates ten percent of its assets to a Treasury FRN that matures in two years, then it will add 73 days to its WAL (10% x 730 days).

For money market mutual funds, Treasury FRNs ideally would be structured with a final maximum maturity of one year (or as close to one year as possible) to ensure that such funds have the capacity to purchase issuances in significant size and still comply with the WAL restriction. Although money market mutual funds are constrained by limits on maturity, we believe that a Treasury FRN program that offers a range of maturity structures will appeal to a broader group of investors and contribute to building a strong liquid market for these securities.

Reopenings and Offering Amounts:

Fidelity believes that utilizing a Discount Margin for auction reopenings is consistent with market practices. We also believe that predictable re-openings of a reasonable size are critical to building the liquidity for a particular issuance. For example, one-year Treasury Bills, which are issued in amounts ranging from $25 billion to $27 billion every four weeks, can become less liquid until they are re-opened on their six month anniversary.

As discussed in our 2012 Letter, the liquidity of Treasury FRNs will be driven in large part by the size of the issuance. From a market perspective, larger size issuances provide better liquidity in the product. An outstanding program of between $160 billion (constituting a $10 billion initial issuance with two $5 billion re-openings each quarter) to $240 billion (constituting reopenings of $10 billion per month) at the end of two years would represent approximately 8-10% of total taxable money market assets. After taking into account the WAL restriction that limits the capacity of money market mutual funds to hold floating rate notes, this issuance size should be large enough to provide liquid markets and small enough to ensure solid auctions.

Fidelity does not have a preference as to whether the size of any re-opening is the same as or less than the size of the original issuance of Treasury FRNs. However, we think it is important that there is sufficient size in a single CUSIP to support good two-way secondary market liquidity. Consistently sized re-openings will support the liquidity of the Treasury FRNs as dealers will be better able to anticipate their ability to cover their short positions with new supply.

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We appreciate the opportunity to comment on the Proposed Rules. Fidelity would be pleased to provide any further information or respond to any questions that the Treasury or its staff may have.

Sincerely,

Scott C Goebel