

Treasury Debt Management



Timothy Bitsberger
Deputy Assistant Secretary
U.S. Treasury Department

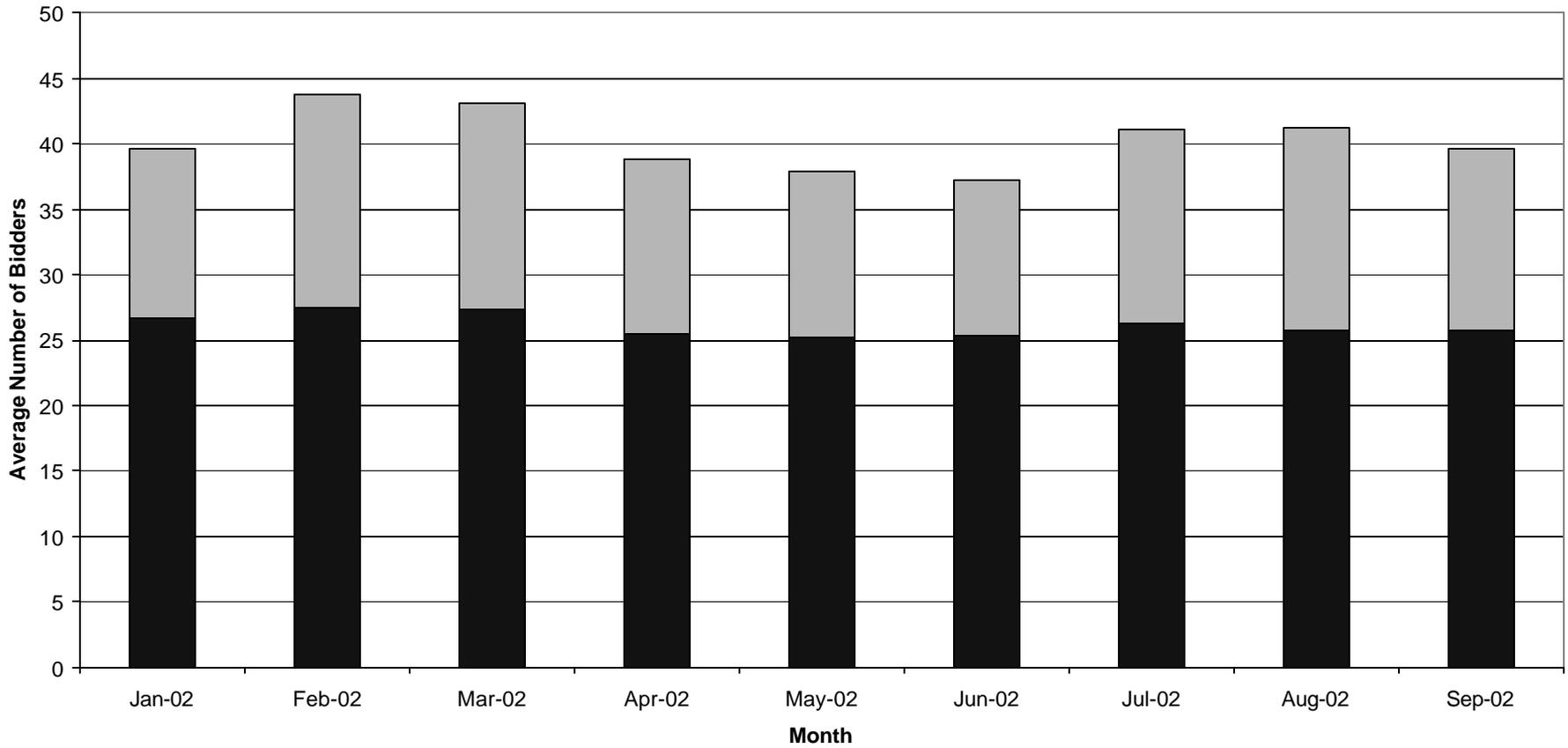
EMERGENCY BIDDING GUIDELINES

1. State your firm's name, your name, and phone number and advise us that you are calling in an emergency bid.
2. Indicate which auction the bid is for.
3. Indicate whether the bid is for the House or a Customer.
4. Provide Par, Yield, and NLP (if applicable).
5. We will attempt to enter the bid while you are on the phone. We will tell you if your bid was placed in the auction.

Under these emergency circumstances, an aggregate bid will be considered a House bid and will not be considered an auction violation. If you are required to report a NLP, you should report only the House NLP because we will consider this aggregate bid as a House bid under the auction rules.

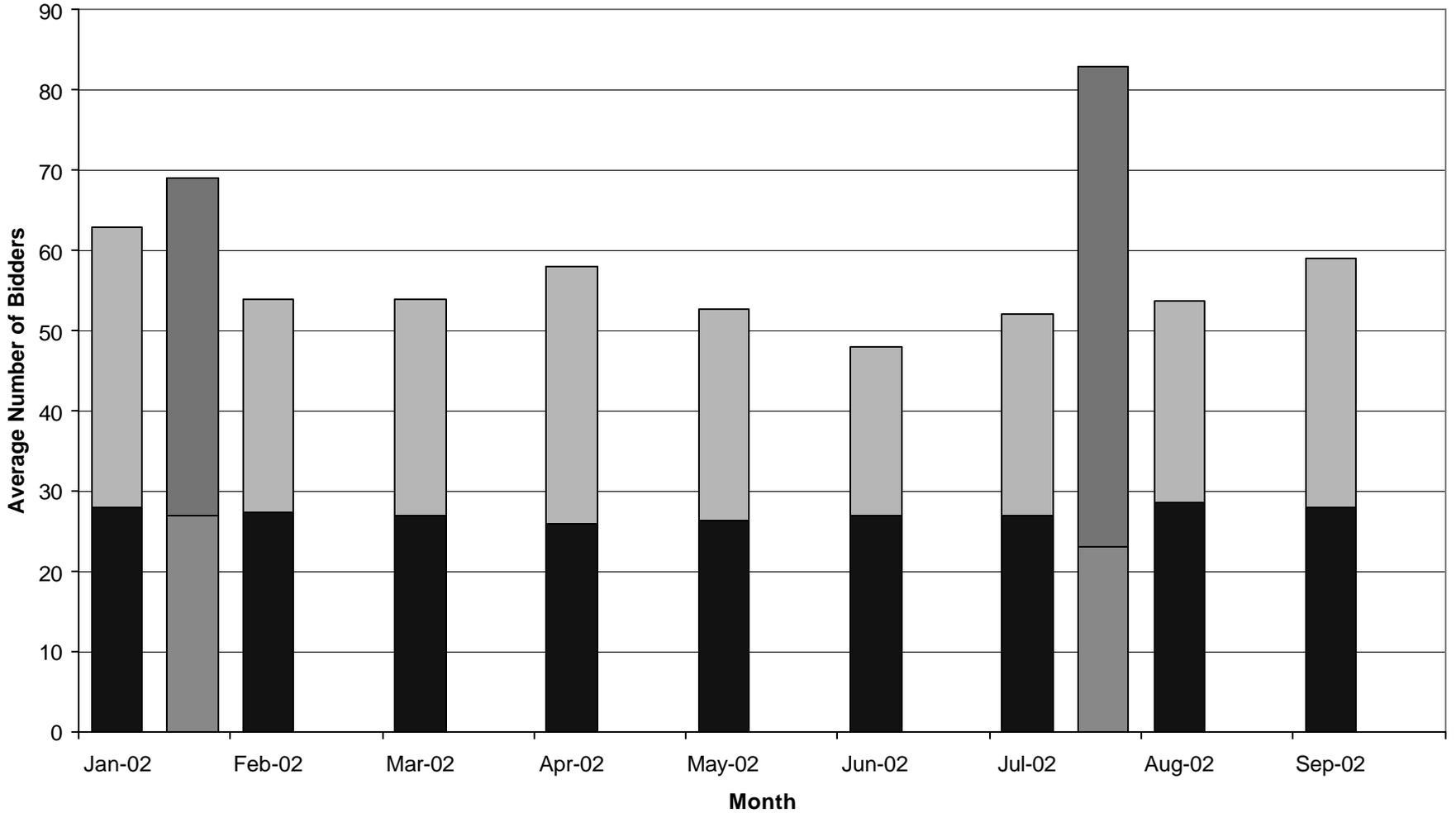
2002 Competitive Bidder Participation By Month - Bills Only

■ Average Direct □ Average Indirect



2002 Competitive Bidder Participation By Month - Notes Only

■ Average Direct-Fixed □ Average Indirect-Fixed ■ Average Direct-Inflation □ Average Indirect-Inflation



Treasury Issuance of Inflation-Indexed Securities

- Potential to reduce borrowing cost over time
 - Treasury spreads inflation risk
 - Broadens investor base
 - Diversifies funding risks
- Liquidity of nominal Treasuries is not an appropriate comparator
- Market still evolving

The Treasury is Committed to TIIS

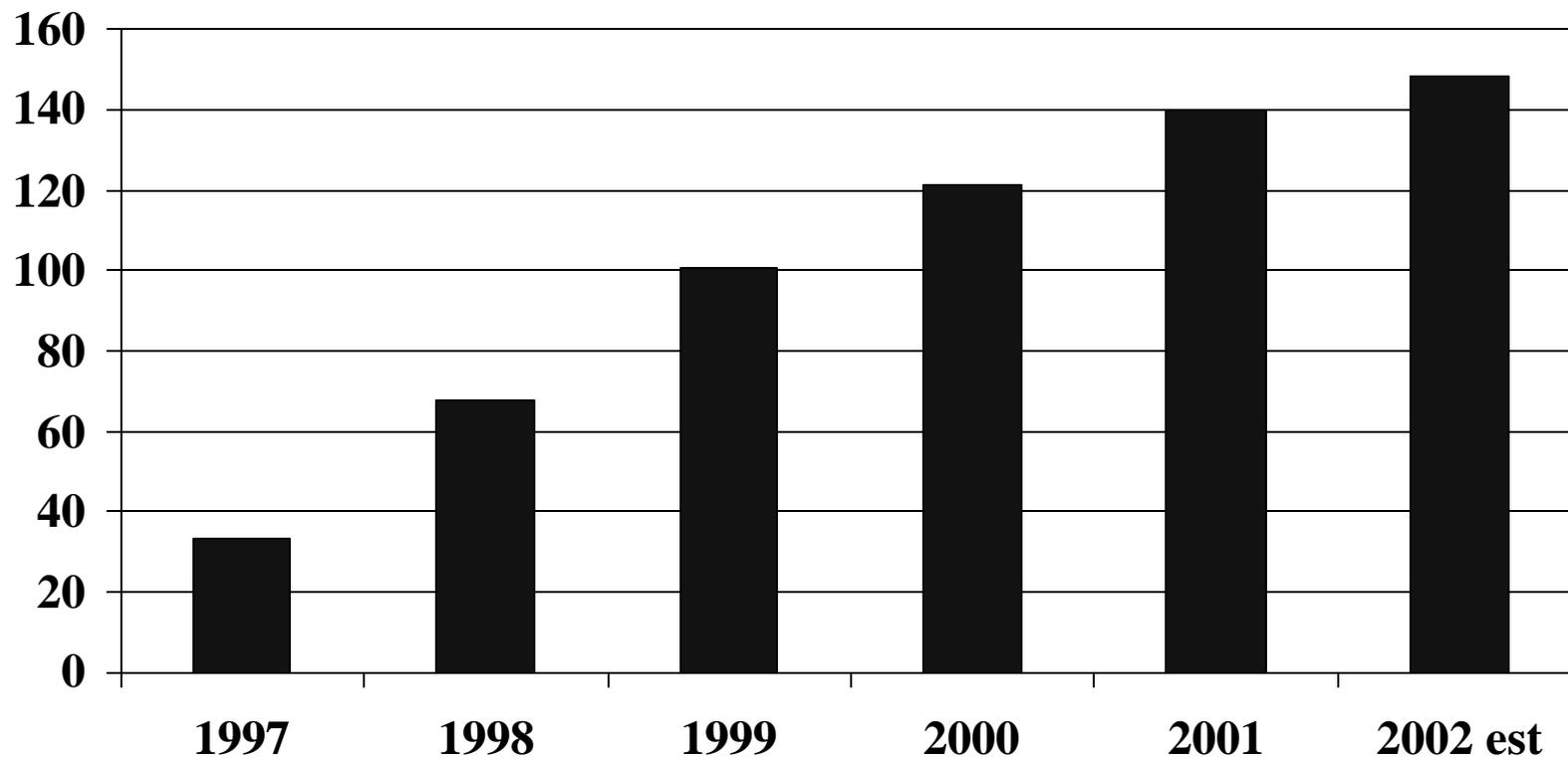
- Same philosophy as nominal Treasuries: Regular and predictable issuance of large, benchmark issues.
- Expanded auction schedule for the 10-year TIIS from two to three a year.
- Increased issuance size of TIIS. Through July, TIIS issuance is up 36% over last year.

TIIS Characteristics

- Fixed real coupon, paid semi-annually on inflation adjusted principal
- • Deflation-protected principal at maturity
- Principal adjusted for inflation daily, but paid at maturity
- Inflation accretion is referenced to the CPI-U NSA, set with a 3-month lag
- First issue January 1997; 10 issues ranging from 2007 to 2032
- \$140 billion market capitalization; total Treasury market capitalization \$3.1 trillion
- Three 10-year TIIS auctions this year, increased issuance
- Average daily trading volume over \$2 billion

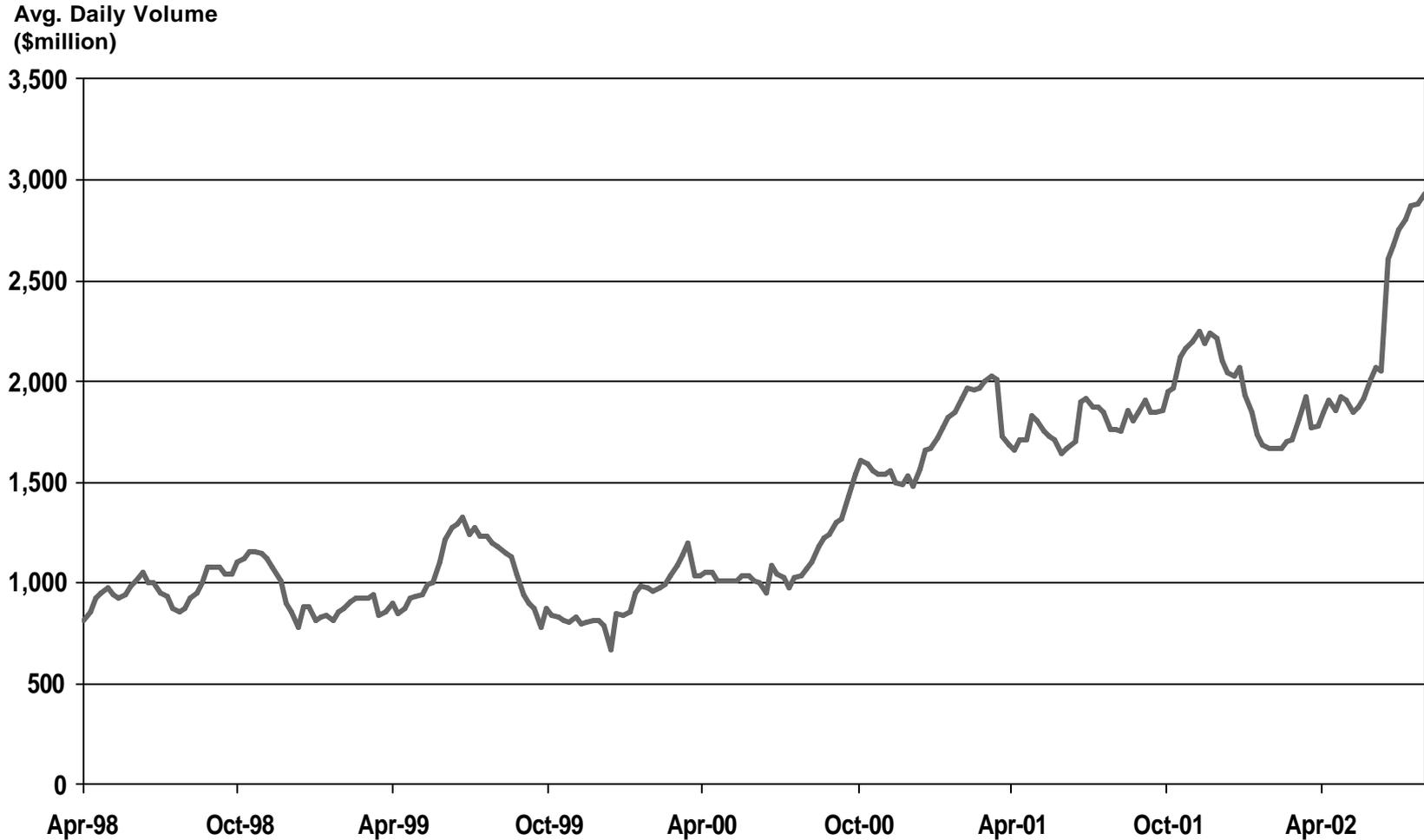
Outstanding Treasury Inflation-Indexed Securities

\$ billions



Liquidity in TIPS

Dealer Transactions in TIPS, 3-month Moving Average of Daily Volume



Return Profiles

(1997 - July 2002)

	Lehman Index	10-Year Treasury	10-Year IIS	S&P 500 Index w/dividends
Annualized Return	7.30%	8.33%	6.72%	4.09%
Monthly Volatility	1.21%	1.85%	0.94%	5.20%
Annual Volatility	6.03%	8.54%	4.70%	19.49%

TIPS Benefit Investors

- Closest thing to a risk free asset for long-term investors, who ultimately should care only about the future real purchasing power of their savings
- Highest credit quality
- Low volatility and attractive returns improve portfolio efficiency
- Better match to inflation than real estate, commodities, or other real assets
- Attractive expected returns relative to nominal bonds currently

Structure

- Principal value is adjusted for inflation by multiplying the value at issuance by an index ratio which changes daily. Inflation adjustment is paid at maturity.
- Coupon payments are a fixed percentage, determined at auction, of the inflation- adjusted value of the principal on the semiannual interest payment dates.
- The index ratio for a particular valuation date is the index number for that date divided by the index number for the issue date.
- $$\text{Index Ratio}_{\text{Date}} = \frac{\text{Index number for value date}}{\text{Index number for dated date}}$$