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Treasury Considers Issuing Floating-Rate Bills, Notes

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The Treasury Department is set to decide this week whether to issue floating-rate debt for the first time.

Such a move would push the government in the opposite direction of many corporations and individuals, who are seeking fixed rates on their debt to take advantage of record-low interest rates.

But experts tell The Wall Street Journal that a move to floating rates makes sense for The Treasury.

A shift wouldn’t have to increase the government’s exposure to volatility in short-term interest rates.

The floating-rate debt would mainly be used for Treasury bills and notes with maturities of up to two years. Because the Treasury issues new bills weekly, it is already exposed to short-term interest rate fluctuation.

But issuing two-year floating rate notes instead of a series of three-month bills would mean the Treasury has to conduct less bill auctions.

And with interest rates likely to head higher in coming years, floating rate debt could be attractive to investors.

"The product should be suitable for a diverse investor base," Morgan Stanley interest-rate strategists write in a report obtained by The Journal.

Not everyone thinks Treasury should make the change.

“In an environment with historically low interest rates, the Treasury should avoid floating-rate debt,” Campbell Harvey, a Duke University finance professor, tells Bloomberg.

“If interest rates go up, it puts the government at risk, because they will need to come up with a lot of extra revenue to pay the interest bill.”