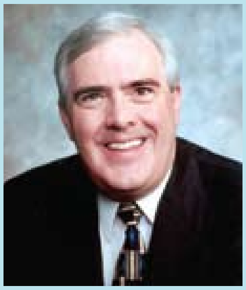
U.S. Department of the Treasury

Bureau of the Public Debt Strategic Plan

Fiscal Years 2009 - 2014

Message from the Commissioner



Van Zeck
Commissioner of the Public Debt

This is the latest in a series of Public Debt Strategic Plans stretching back nearly 30 years. I recall when our structured process of long-range planning (as we called it then) first began. The recommendation that we have a more disciplined planning process was made by a small group of managers who had attended training together. The training challenged them to think expansively about how our bureau could be more effective and then make specific recommendations. They felt sure our bureau would benefit from a more disciplined approach to planning and increased attention to bureau-wide issues. They were right. Interestingly, their strategic thinking produced our strategic planning. As I have seen things unfold, the maturation of our planning process over the years has correlated positively with the ever-increasing capacity of Public Debt to get things done.

This plan continues our tradition of "relentless progress." In all of our program areas, the directions are strategic, the expectations for progress are meaningful and specific, and the accountability is clear. One thing you may notice in this plan is how our perspective continues to expand. This is reflected in several initiatives where we are committed to playing a stronger role in influencing government-wide approaches and standards as well as offering services to customers outside of Public Debt and, in fact, outside of Treasury. You will also find an old friend in this plan—technology. Ever since 1958, when we acquired one of the first computers in the federal government, we have been comfortable with and extensive users of technology. This appreciation of technology generally and the automation of business processes specifically are simply a part of who we are.

This plan is organized around our five program areas. The direction for each program is spotlighted and straightforwardly presented. I have the utmost confidence that the Public Debt employees in these program areas, working with our partners in the Federal Reserve System, will take us where we plan to go as they have so reliably done in the past.

Because our plan is structured around our securities, accounting, and franchising programs, you will not read specifically about some critical contributors to Public Debt's program and organizational success. Underpinning our programs are a number of essential support organizations without which none of the initiatives in this plan could possibly be accomplished. Working in these organizations are hundreds of dedicated employees providing us with reliable and high-quality administrative, legal, technical, and other support.

> Quite a number of our employees are focused on making sure that we have the resources needed to get our jobs done. Through their efforts and attention to detail, we have the trained people, funds, space, and technology necessary to accomplish our work.
>
> Other employees provide us with safe, comfortable, and well-maintained facilities. As a result of their efforts, our work environment directly contributes to our success rather than detracts from it.
>
> Just as important are the support personnel whose guidance and evaluation keeps us in compliance with not only the letter but also the spirit of the myriad rules, regulations, and ever-changing expectations that we are subject to. Our program areas are better able to move forward and improve service because we have earned a reputation for compliance.
>
> Additionally, there are employees who capably represent us externally—to our customers, our business partners, the media, and others both inside and outside government. Their capable representation maintains critical relationships and keeps us in touch with those we serve.

The work of these support organizations and employees is essential. The care, energy, and expert guidance they provide enable our programs to better meet customer needs and provide a solid foundation on which the many initiatives in this plan will be built.

There is one more foundational element that also supports everything we do—our commitment to achieving a pervasive and sustainable values-based culture. To make this happen, our executives will continue to lead by example and expectation, every employee will have the opportunity to and be expected to contribute, and we will more actively promote and demonstrate how our values-based culture improves organizational effectiveness.

The next several years will be challenging and fun as we continue another Public Debt tradition—a tradition of continuous improvement. We will accomplish what we set out to do in our programs and in our culture, and we will effectively handle those things that will most certainly arise but that we could not have foreseen as this plan was prepared.

Van Zeck

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What We're About

Heritage

"The United States debt, foreign and domestic, was the price of liberty. The faith of America has been repeatedly pledged for it... Among ourselves, the most enlightened friends of good government are those whose expectations of prompt payment are the highest. To justify and preserve their confidence; to promote the increasing respectability of the American name; to answer the calls of justice; to restore landed property to its due value; to furnish new resources, both to agriculture and commerce; to cement more closely the Union of the States; to add to their security against foreign attack; to establish public order on the basis of an upright and liberal policy — these are the great and invaluable ends to be secured, by a proper and adequate provision, at the present period, for the support of public credit."

Alexander Hamilton, 1790
Report on the Public Credit

Hamilton statue, South Entrance to Treasury Building
Photo courtesy of the United States Department of the Treasury

Mission

To borrow the money needed to operate the federal government, account for the resulting debt, and provide reimbursable support services to federal agencies.

Authority

Article I, Section 8 of the Constitution empowers the Congress to borrow money on the credit of the United States. This authority has been delegated to the Secretary of the Treasury. Responsibility for conducting borrowing operations and accounting for the resulting debt now rests with the Bureau of the Public Debt ("Public Debt"), one of two bureaus within Treasury's Fiscal Service.

Our provision of services to other federal agencies is conducted under the authority of the Treasury Franchise Fund. This Fund began as a pilot program under the Government Management Reform Act of 1994 and has since been given permanent status by Congress in the Consolidated Appropriations Act, 2005. Public Debt's Administrative Resource Center became a member of the Treasury Franchise Fund in 1998.

Vision

We aspire to be an organization leading the way for responsible, effective government through commitment to service, efficient operations, openness to change, and values-based behavior.

Values

We believe a values-based culture—where *how* we do what we do is as important as *what* we do—is not only what our employees deserve but also is critical to the success of our programs and services. Because of that, we aim to be an organization where values-based behavior is universally demonstrated, expected, and cherished. We have adopted the "Five I's"—integrity, individual respect, information sharing, inclusion, and informality—as representative of the values we embrace and seek to demonstrate in our internal and external relationships.

An Overview of Public Debt

Officially, the Bureau of the Public Debt was formed on June 30, 1940. However, this does not begin to tell our whole story. We trace our ancestry from the time of the American Revolution, when our country's need to borrow money and account for the resulting debt began. For much of our nation's history, these functions were performed within Treasury by the Office of the Register, the Treasurer, and the Division of Loans and Currency. It was not until 1919 that the first Commissioner of the Public Debt was appointed to direct most of the borrowing and debt accounting operations. In 1940, Public Debt was established as a separate Treasury bureau, bringing together the borrowing and debt accounting operations into one organization.

Over the last twenty years, Public Debt has assumed several additional responsibilities, including administering government securities regulations, handling all of Treasury operations involving federal investments and borrowings, and providing various shared services to other federal agencies.

Where We Work

Public Debt is headquartered in Washington, D.C., with most of its operational and support staff located in Parkersburg, West Virginia.

Employment at Public Debt reached an all-time high during World War II, with more than 10,000 employees at several locations throughout the country. Today, Public Debt has approximately 2,000 employees.

The Best Places to Work
IN THE FEDERAL GOVERNMENT 2007

Public Debt has consistently earned recognition as one of the "Best Places to Work" in the federal government, based on the Office of Personnel Management's biennial survey of federal employee satisfaction. In 2007, Public Debt ranked 23rd out of 222 federal agency subcomponents.

Today, Public Debt's responsibilities are carried out under five distinct programs. Each of these programs is described in more detail under the Program Directions section of this plan. Here we briefly orient you to our businesses:

Wholesale Securities Services Program

Involves auctioning of Treasury marketable securities (Treasury bills, notes, bonds, and Treasury Inflation-Protected Securities, known as TIPS); oversight of operations for holding and servicing most of these securities and for supporting transfers of securities in the secondary market; and administration of government securities regulations.

Government Agency Investment Services Program

Supports federal, state, and local government agency investments in special purpose, nonmarketable Treasury securities, as well as federal agencies' borrowings from Treasury.

Retail Securities Services Program

Serves more than 55 million retail customers who have invested in Treasury marketable and savings securities directly with Treasury.

Summary Debt Accounting Program

Accounts for and reports on the outstanding public debt of the United States and related interest expenses.

Franchise Services Program

Provides competitively priced administrative and information technology services to other federal agencies, as part of Treasury's Franchise Fund and in support of a federal initiative to gain efficiency through agencies' use of shared services.

A Guide To Our Strategic Plan

Public Debt's Strategic Plan complements Treasury's FY 2007 – FY 2012 Strategic Plan. Specifically, Public Debt's plan supports the following Treasury value chain outcomes:

- Government financing at the lowest possible cost over time.
- Accurate, timely, useful, transparent, and accessible financial information.
- A citizen-centered, results-oriented, and strategically aligned organization.

The links between our plan and Treasury's value chain outcomes are the following Public Debt strategic goals, which provide the foundation for our programs:

- Effectively finance government operations.
- Effectively account for the debt of the federal government.
- Provide highly competitive shared services to federal agencies.

To support these strategic goals, Public Debt has developed various strategies for the next five years. These strategies are organized around our five programs. For a visual representation of our goals and strategies and their linkage to Treasury's plan, please see the chart on page 6.

STRATEGIC PLAN

Bureau of the Public Debt • Fiscal Years 2009 - 2014

Treasury

	Finance		Management
Value Chain Outcomes	Government financing at the lowest possible cost over time	Accurate, timely, useful, transparent and accessible financial information	A citizen-centered, results-oriented and strategically aligned organization

Bureau of the Public Debt

	Finance		Management
Strategic Goals	Effectively finance government operations	Effectively account for the debt of the federal government	Provide highly competitive shared services to federal agencies

Programs and Strategies

Wholesale Securities Services

- Guarantee operational readiness to meet the federal government's critical financing needs
- Protect and strengthen Treasury's borrowing capabilities
- Preserve confidence in Treasury auctions through compliance
- Educate and build relationships with our large investors
- Enhance government securities regulations

Government Agency Investment Services

- Strengthen and streamline controls for Government Agency Investment Services
- Enable government agency customers to more effectively manage their investments

Retail Securities Services

- Position Treasury to eliminate new issues of paper savings bonds
- Replace the Legacy Treasury Direct system
- Improve the quality and efficiency of service to retail customers
- Encourage redemption of outstanding, matured Treasury securities

Summary Debt Accounting

- Provide timely and accurate data concerning the public debt of the United States
- Redefine and modernize the debt accounting environment
- Improve the clarity, usefulness, and availability of federal debt financial information

Franchise Services

- Provide the best value in the federal government for administrative and information technology services
- Champion standardization efforts and best practices to strengthen shared services
- Guarantee the highest level of compliance to promote customer confidence and service reliability

About Our Strategic Goals

Effectively finance government operations.

The effective financing of government operations includes a number of elements. First, it involves borrowing what is necessary to meet the funding needs of the federal government. Additionally, it focuses on minimizing borrowing costs. A third element entails providing mechanisms to allow for a wide range of investors to purchase Treasury securities.

Effectively account for the debt of the federal government.

Effectively accounting for the debt of the federal government involves two primary components—accuracy and timeliness. These are key to enabling sound debt management decisions for the federal government and ensuring public confidence in Treasury's reporting on its borrowings.

Provide highly competitive shared services to federal agencies.

Based on a strong core of expertise developed over the years, Public Debt offers a host of administrative and information technology services to other federal agencies. In providing these shared services, Public Debt's Franchise Services program is an example of good government in action. Our federal agency customers receive quality, cost-effective services and are able to focus on their core businesses. The American taxpayer also benefits from the resulting lower costs for operating the federal government.

Program Directions

:: WHOLESALE SECURITIES SERVICES

The Wholesale Securities Services program focuses on meeting the U.S. Government's critical financing needs; maintaining the integrity, liquidity, and efficiency of primary and secondary markets for Treasury securities; and fulfilling Treasury's regulatory responsibilities for the government securities market. This program includes all activities related to the auctioning of approximately $4.5 trillion in Treasury securities each year. The program also includes oversight over those portions of the National Book-Entry System that provide custodial, transfer, payment, and other transactional functions for Treasury marketable securities. This system, operated by the Federal Reserve, handles 98 percent of Treasury marketable securities, which are held for financial institutions and their customers.

Another aspect of this program involves administering Treasury's auction rules as well as the Government Securities Act regulations, which are designed to safeguard the liquidity, integrity, and efficiency of the secondary market for government securities. As part of this program, we also identify collateral that can be pledged to the federal government to secure public monies on deposit at financial institutions and ensure that this collateral is valued appropriately.

In support of our strategic goal to *effectively finance government operations*, our strategies for the Wholesale Securities Services program are:

- Guarantee operational readiness to meet the federal government's critical financing needs.
- Protect and strengthen Treasury's borrowing capabilities.
- Preserve confidence in Treasury auctions through compliance.
- Educate and build relationships with our large investors.
- Enhance government securities regulations.

GUARANTEE OPERATIONAL READINESS TO MEET THE FEDERAL GOVERNMENT'S CRITICAL FINANCING NEEDS.

We are responsible for conducting over 200 Treasury auctions annually, all of which must be timely and accurate. Each and every auction is essential to the continuous operation of the federal government and to making payments on U.S. Government obligations. Our challenge is not only to conduct auctions timely and accurately, but also to quickly make operational adjustments necessary to support changes in debt management strategies. This demands a flexible, robust, and resilient auction operation.

In 2008, we implemented a new auction system and infrastructure that provide substantial flexibility to accommodate future borrowing needs. With that, our goal is to implement new Treasury borrowing strategies and policies within three months of receiving final requirements. These requirements may include, for example, changes in financing patterns or auction rules, the addition or removal of security offerings, and new data demands.

The new auction system also provides an excellent foundation for creating a rich data warehouse of Treasury borrowing information. To develop this capability, we will partner with Treasury's debt managers to determine their analytical needs for auction data and work together to meet their needs efficiently and effectively.

PROTECT AND STRENGTHEN TREASURY'S BORROWING CAPABILITIES.

Large-scale disruptions, whether from terrorism, cyberattacks, natural disasters, pandemic illnesses, or other sources, can seriously damage federal government operations and services and create an immediate need for emergency borrowing. Comprehensive contingency plans and strong security controls are essential to ensuring the continual availability of our critical operations supporting Treasury's borrowings and the Treasury securities market.

The contingency and security features of our new auction system and infrastructure are extremely robust. While enhancing this system and infrastructure remains a critical part of our contingency and security plans, it is not our only focus. We'll continue to ensure that our back-up auction processing sites are fully functional and that our staff receives training and practice for contingency scenarios. Our focus will also be external. Obtaining written commitments from our major auction participants to engage in a number of business continuity activities with us is a priority. We'll develop extensive and well-rehearsed alternate communication plans to cover a wide range of disruptive circumstances. These activities are designed to ensure that our largest market participants maintain effective contingency plans and can demonstrate their readiness to participate in Treasury auctions in times of crisis.

About Treasury Auctions

Bidders range from the very largest commercial institutions to individuals. On average, about 900 bidders participate in each auction, either directly or as customers of commercial institutions, through our automated auction system. On average, another 13,500 bidders, primarily individuals investing smaller amounts, regularly submit bids via our retail securities systems.

Bids are received for as little as $100 and as much as several billion dollars, depending on the particular auction. Treasury securities that are currently auctioned have maturities ranging from four weeks to 30 years. The shortest-term, regularly offered Treasury bills are auctioned weekly; other Treasury securities are generally offered monthly, quarterly, or semiannually.

Information about current offerings, as well as how to submit bids—whether you're an individual or an institution—can be found at www.treasurydirect.gov.

Through a close partnership with the Federal Reserve, we will ensure that the National Book-Entry System remains a secure holding and transfer system for Treasury securities and that interest and principal payments are made with 100 percent accuracy and timeliness. Jointly, we will review and test contingency plans and evaluate alternatives for issuance and settlement.

Our objective is to guarantee rapid recovery and timely resumption of our critical securities operations following unanticipated disruptions. To achieve this, we must continually focus on protecting the confidentiality and integrity of our data through constant diligence and upgrades of our security controls.

PRESERVE CONFIDENCE IN TREASURY AUCTIONS THROUGH COMPLIANCE.

A high level of confidence in a fair and competitive Treasury auction process is critical to attracting widespread market participation and ensuring the lowest cost of borrowing. Continuous monitoring and dealer visits are the cornerstones of our compliance program. The visits allow our staff to discuss findings revealed during our daily auction monitoring, review dealer auction operations, verify that dealers are complying with Treasury auction rules, and recommend changes to dealer internal processes and procedures to reduce the risk of auction violations. Education and training efforts, including formal auction rule instruction, will help Treasury securities investors better understand the auction rules and recognize the importance of compliance. This program and its emphasis on voluntary compliance, combined with our education efforts, have proven very effective in significantly reducing auction violations. It will be continued and enhanced, as appropriate, to maintain the integrity of Treasury auctions.

EDUCATE AND BUILD RELATIONSHIPS WITH OUR LARGE INVESTORS.

We will partner with Treasury's debt managers to strengthen relationships with large purchasers of Treasury securities: primary dealers, institutional investors, hedge funds, and foreign central banks. The focus of this effort is to enhance their understanding of Treasury's debt financing policies, our securities offerings, and the auction process. At the same time, Treasury debt managers can gain a better understanding of market participants' interests and concerns. Our support will include identifying and arranging opportunities for Treasury debt managers to address strategic groups of market participants, as well as meet one-on-one with various investor organizations.

The portion of our website targeted to institutional customers is one of our most valuable tools for educating and communicating with our major market participants. It's important that investors and other market participants from around the globe have rapid electronic access to current and accurate information about Treasury marketable securities. We'll continue to implement changes based on feedback from our customers about ways in which we can enhance our website to better meet their needs.

ENHANCE GOVERNMENT SECURITIES REGULATIONS.

On Treasury's behalf, we administer regulations involving three distinct areas: the auctioning of Treasury securities, the secondary market for government securities, and eligibility and valuation of collateral to protect public funds.

To add value to deliberations on formulating rule changes, we will continually educate ourselves, Treasury policy officials, and other regulatory agencies about new products, innovations in business practices and technology, and other market factors that may impact any of the three regulatory areas we administer. When determinations are made to augment or modify rules, we will act promptly to draft clear language to explain and implement the rule changes. On an ongoing basis, we will educate those impacted by our rules, including regulators responsible for enforcing the rules, by providing formal training, individual meetings, and extensive content on our website.

While we can't predict the specific subject matters that we'll need to address over the course of the next few years, there will likely be regulatory changes needed — given the dynamic nature of the government securities market, Treasury's goal of conducting borrowings as efficiently as possible, and the potential for new financial instruments to be considered for Treasury's collateral programs. We will be prepared to respond quickly and knowledgeably as the need for regulatory change arises.

A Part of our History

This antique kiosk housed part of the U.S. Treasury exhibition at the famed World Columbian Exposition of 1893 and appeared at several later world's fairs. It now displays a small portion of Public Debt's collection of historic securities, some dating from the late 1700s. The oldest securities were inscribed and signed by hand. Later securities contain beautifully detailed, engraved portraits, vignettes, and borders. Over the years, a number of securities issues were designated to fund specific efforts that represent significant events in our nation's history. These include, for example, the Louisiana Purchase, various wars, and the building of railroads and the Panama Canal.

:: GOVERNMENT AGENCY INVESTMENT SERVICES

The Government Agency Investment Services program includes the offering of specialized investments for government entities at the federal, state, and local levels, as well as borrowings by federal agencies. Because these investments and borrowings are based on a broad array of statutes and serve a diverse customer base, our challenge is to ensure that we meet both statutory requirements and customer needs, while providing the most efficient operations possible.

This program has three distinct components:

Federal Investments: This component includes issuing, servicing, and redeeming Government Account Series securities for federal agencies that have specific statutory authority to invest in these special, nonmarketable Treasury securities. More than 230 federal funds are invested in Government Account Series securities totaling approximately $4 trillion, or nearly half of the public debt.

The Secretary of the Treasury has been designated by statute as the managing trustee for 18 significant trust funds, including the Social Security and Unemployment trust funds. For these funds, we perform additional services, such as accounting and reporting on all receipts and disbursements.

Special Purpose Securities: In this component, we administer a variety of special purpose securities, including some issued by other federal agencies for which we serve as fiscal agent. Treasury's State and Local Government Series securities represent the largest portion of principal outstanding. These securities offer a flexible investment alternative for state and local governments to refinance their outstanding, tax-exempt debt. We issue, service, and redeem these securities. There are about 6,900 government entities that hold investments in these securities, amounting to approximately $290 billion.

Federal Borrowings: This is a unique element of the Government Agency Investment Services program in that its purpose is to loan funds to federal agencies. We act on Treasury's behalf to make these direct loans and loan guarantees to federal agencies operating loan programs to support, for example, education, housing, veterans, and small businesses. Our responsibilities include ensuring that all principal and interest amounts are accounted for appropriately, reported timely, and presented accurately. There are approximately 80 funds administered by various federal agencies whose outstanding borrowings total, on average, $224 billion annually.

Federal Borrowings and You

Ever had a student loan? If so, chances are good that the loan was made or guaranteed by the federal government. This is only one example of the federal borrowings program. Every year the federal government lends or guarantees billions of dollars in loans to non-federal borrowers such as small businesses, students, veterans, and farmers. By ensuring funding to inadequately served areas of the population, the federal government helps promote the nation's general welfare. Public Debt's role in this process is to loan money to federal agencies that operate lending programs and to account for and report on loans receivable, interest receivable, and interest revenue, as well as to publish Treasury-certified interest rates.

In support of our strategic goal to *effectively finance government operations*, our strategies for the Government Agency Investment Services program are:

- Strengthen and streamline controls for Government Agency Investment Services.
- Enable government agency customers to more effectively manage their investments.

STRENGTHEN AND STREAMLINE CONTROLS FOR GOVERNMENT AGENCY INVESTMENT SERVICES.

To gain efficiencies and strengthen controls, core business functionality that resides in four different systems will be consolidated into a single, commercially available, automated solution. As part of this effort, the number of common business processes that serve federal investments, special purpose securities, and federal borrowings will be reduced from eighteen to six. This consolidation will give us the flexibility to respond more quickly and efficiently to changes in legislation or policy. Ultimately, with standardized system, business, and data elements, we can introduce stronger internal controls and reduce operational risks.

Part of this strategy will focus specifically on the additional accounting services we provide for the managed trust funds for which the Secretary serves as trustee. We will re-engineer and streamline these accounting business processes, taking advantage of system functionality and internal control mechanisms already available to us. The benefits we will gain include reduced risks through more stringent controls, greater flexibility, and operational efficiencies.

ENABLE GOVERNMENT AGENCY CUSTOMERS TO MORE EFFECTIVELY MANAGE THEIR INVESTMENTS.

Our objective is to provide our customers with the assistance they need to manage their investments as effectively and efficiently as possible. One of the ways this will be accomplished is through education. We'll conduct periodic seminars to inform customers about issues relevant to their investments and to ensure they understand the rules and policies that apply to these investments. We'll enhance our orientation for new customers to enable them to take full advantage of our systems and services. More extensive reporting capabilities will be made available to our customers, which will give them the ability, for example, to create customized reports that better meet their needs.

When Treasury introduces new instruments or changes to existing instruments available for federal agency investment, we will assist our customer agencies in understanding these changes and the implications for their investment operations. As new legislation is enacted or business processes change, we'll support federal agencies' implementation of these modifications. For example, we'll work with our customers to implement Treasury's major initiative to improve and streamline government-wide accounting through the capture of all necessary financial information at the first point of reporting.

When legislation establishing investment authority for a new fund is vague or inconsistent, we and our affected customers experience significant operational challenges in trying to implement this new authority. We'll support Treasury's initiative to standardize legislation for all new investment funds by actively promoting Treasury's preferred language to drafters of proposed investment legislation.

Together, these initiatives will enable our customers to optimize the management of their investments.

:: RETAIL SECURITIES SERVICES

The Retail Securities Services program serves more than 55 million investors in Treasury securities, most of whom are individuals. We want to make it as easy as possible for investors to learn about our products and services, make informed decisions about buying Treasury securities, and manage their Treasury investments efficiently. This program encompasses the issuance, servicing, and redemption of U.S. Savings Bonds in both electronic and paper form, as well as marketable Treasury securities sold in electronic form directly to retail investors. It also includes the servicing and redemption of outstanding marketable securities that were issued in paper form.

Operationally, this program has four distinct elements:

TreasuryDirect®: The centerpiece of Retail's strategic direction is this self-service, Internet-accessed system. Customers establish their TreasuryDirect accounts, purchase electronic securities, direct electronic payments to their bank accounts, and manage their holdings online, at their convenience, and in a secure environment. Owners of paper savings bonds can convert their bonds to electronic form to hold in TreasuryDirect. Launched in 2002, TreasuryDirect initially offered electronic savings bonds and was later expanded to include marketable Treasury securities for individuals. More than 270,000 accounts hold over $8 billion.

Paper Savings Bonds: This element includes all Public Debt, Federal Reserve, and other agent activity to issue, service, and redeem paper savings bonds. Some 55 million people hold almost 700 million paper savings bonds worth more than $190 billion.

Legacy Treasury Direct: Introduced in 1986 when Treasury began issuing marketable securities exclusively in electronic form, this program element encompasses all Public Debt and Federal Reserve activity to establish and service book-entry accounts for marketable securities in Legacy Treasury Direct. Customers hold more than $67 billion in 348,000 accounts.

Paper Marketable Securities: Although Treasury stopped issuing marketable securities in paper form in 1986, we still service outstanding obligations. The last issue of these definitive securities will mature in 2016. By FY 2009, there will be less than $40 million outstanding in certificates not yet eligible for redemption.

In support of our strategic goal to *effectively finance government operations*, our strategies for the Retail Securities Services program are:

- Position Treasury to eliminate new issues of paper savings bonds.
- Replace the Legacy Treasury Direct system.
- Improve the quality and efficiency of service to retail customers.
- Encourage redemption of outstanding, matured Treasury securities.

POSITION TREASURY TO ELIMINATE NEW ISSUES OF PAPER SAVINGS BONDS.

Treasury is committed to offering savings bonds to the public, and our responsibility is to do so as efficiently as possible. Our strategy for accomplishing this centers on TreasuryDirect and electronic bonds, which are far more efficient to issue and service over the long term than paper savings bonds.

Our success in encouraging customers to use TreasuryDirect to buy savings bonds will largely depend on their willingness to do business with us via the Internet. There are a number of steps we will take to enhance the attractiveness of TreasuryDirect and encourage a shift away from paper bonds, some of which are described below.

To mitigate risks, both real and perceived, associated with online financial transactions, we continually seek ways to increase security. For example, we are distributing TreasuryDirect Access Cards to provide account holders a unique and more secure means of identifying themselves, in addition to normal password protection, each time they wish to access their accounts.

Given the traditional appeal of savings bonds as gifts, we'll enhance TreasuryDirect to simplify the gift-giving process and eliminate the donor's need to know certain details about the recipient's account. Another strategic target is paper bonds issued through payroll savings plans. The process for an employee to direct payroll dollars to TreasuryDirect is simple and saves the employer substantial administrative costs. Familiarity with and access to the Internet should generally not be an issue for most employees. Together with the Federal Reserve, we'll work to transition payroll savings from paper to electronic securities.

While our website remains our primary means of communicating with the public about buying and holding Treasury securities, we'll explore new avenues to promote TreasuryDirect. Outreach through other communication channels, such as financial literacy programs, will target customers not yet accustomed to conducting financial transactions online.

Survey Says

Customer preferences reflect a growing trend toward personal support in an online environment. In a recent TreasuryDirect survey, our retail customers said they would like us to provide a toll-free number, expand our service hours, and offer instant messaging. While we'll continue to encourage customers to take advantage of our self-service options, we'll also look for efficient ways to provide high-quality, personal service to customers when needed.

While there has been no date set for withdrawing paper bonds from sale, the efforts that we are undertaking are designed to move increasing numbers of investors to TreasuryDirect as their preferred way of buying and holding savings bonds.

We will also continue our efforts to encourage owners of outstanding paper bonds to convert their holdings to electronic form through TreasuryDirect. This conversion feature has proven to be quite popular and also contributes to the efficiency of the Retail program. We'll streamline our operations to make the conversion process even simpler for our customers.

REPLACE THE LEGACY TREASURY DIRECT SYSTEM.

Although enhanced over the years, the Legacy Treasury Direct system operates on outdated technology that will become increasingly more expensive and difficult to maintain. Now that marketable securities are available in TreasuryDirect, we have been encouraging customers in the legacy system to transfer their holdings to TreasuryDirect.

A critical next step will be enhancing TreasuryDirect to support ownership of securities by entities, such as estates, trusts, and organizations, so that the new system can accept all types of investors currently in the legacy system. To increase TreasuryDirect's appeal, we will also simplify its current process for reinvesting the proceeds of matured securities.

Following appropriate notice, we will bar establishment of new accounts and new purchases in Legacy Treasury Direct. As investors in the legacy system begin to buy securities in TreasuryDirect, most of them will likely consolidate their existing holdings into their new TreasuryDirect accounts. But we can't compel remaining legacy investors to move their securities to TreasuryDirect, with its somewhat different provisions, including the need for Internet access. To manage the residual legacy accounts, we will build a replacement system that will also incorporate a number of other legacy securities applications. This consolidation of applications will increase efficiency, reduce costs, and eliminate dependency on outdated technology.

IMPROVE THE QUALITY AND EFFICIENCY OF SERVICE TO RETAIL CUSTOMERS.

Public Debt and the Federal Reserve together serve owners of paper savings bonds and marketable securities held in Legacy Treasury Direct. At one point, there were 38 locations providing various services to our retail customers. Since 2005, following a series of consolidations to gain efficiencies, these same customers are served primarily by Public Debt and two Federal Reserve sites. Public Debt currently provides most services to TreasuryDirect account holders.

With fewer servicing sites, we are now solidly positioned to create a new customer service environment that will support all retail customers and will increase quality, consistency, and efficiency across the remaining three sites. This ambitious initiative, named Treasury Retail E-Services (TRES), promises a seamless experience for our customers while lowering costs by creating more opportunities for customer self-service and eliminating duplicative processes. No matter where our customers live, what securities they hold, the complexity of their transactions, or which site receives their requests, they will receive the same high-quality service.

TRES will offer a wide range of customer communication channels—everything from traditional means (phone, fax, mail, and e-mail) to newer means such as web chat and instant messaging. As technology and our business evolve, we'll continue to embrace cost-effective, cutting-edge communication channels. TRES will encourage self-service to the greatest extent possible, allowing customers online access to their own information, much as TreasuryDirect does. For example, customers might check the status of a request, review e-mail history, and extract retired bond images.

TRES will share common databases and systems, including a call center platform, among the three service sites so that we can provide more effective service. We'll establish a set of tools and a standard suite of services to handle both savings bond and marketable securities transactions. TRES will increase efficiency by making prior transaction history available to customer service representatives, reducing the need for follow-up calls. By supporting our full range of products in an integrated system and optimizing communication, we'll be able to respond to customers more quickly and thoroughly. We'll implement TRES in phases to take advantage of new service capabilities as quickly as possible.

ENCOURAGE REDEMPTION OF OUTSTANDING, MATURED TREASURY SECURITIES.

As of 2008, more than 39 million securities worth $16 billion had matured and had not been redeemed. Nearly all of these are U.S. Savings Bonds. While this represents a very small percentage of the total amount issued over many years, the numbers are substantial. We are committed to encouraging owners to redeem these matured securities which no longer earn interest.

Our Retail Securities Services program has a locator group dedicated to finding and contacting owners of matured securities. We're updating systems and workflow to make our current services more efficient. This includes Treasury Hunt®, our online service that enables individuals to query a large and growing database to determine whether they may own any outstanding, matured Treasury securities.

Owners of matured savings bonds typically have the securities in their possession, but, in some cases, they don't realize their bonds have stopped earning interest. We'll expand our education effort to spread the word about matured bonds. We'll use focus groups and other market research to help us craft more effective messages for use on our website, as well as in other communication channels more likely to reach individuals not accustomed to using the Internet. Our partnership with Federal Reserve Banks also offers opportunities to increase our outreach. We'll look for opportunities for Federal Reserve staff to provide additional locator resources and help us explore new locator tools to make our searches more efficient.

:: SUMMARY DEBT ACCOUNTING

The Summary Debt Accounting program is key to meeting our responsibility to account for the more than $9 trillion of public debt and more than $400 billion in related annual interest expenses. This program provides the overarching control structure for dozens of subordinate securities systems and reconciles more than $77 trillion of securities transactions and related cash flows handled by these subsystems annually. These cash flows represent funds received from the sale of securities and funds disbursed as interest and principal payments.

The program produces daily reports on the balances and composition of the public debt, the *Monthly Statement of the Public Debt*, and the annual, audited *Schedules of Federal Debt*, which reports on the single largest liability in the annual *Financial Report of the United States Government*.

We have always been committed to maintaining excellent accounting controls to ensure the integrity of operations and the accuracy of information provided to the public. The strength of our accounting controls is reflected in the unqualified audit opinions we have consistently received on our *Schedules of Federal Debt*.

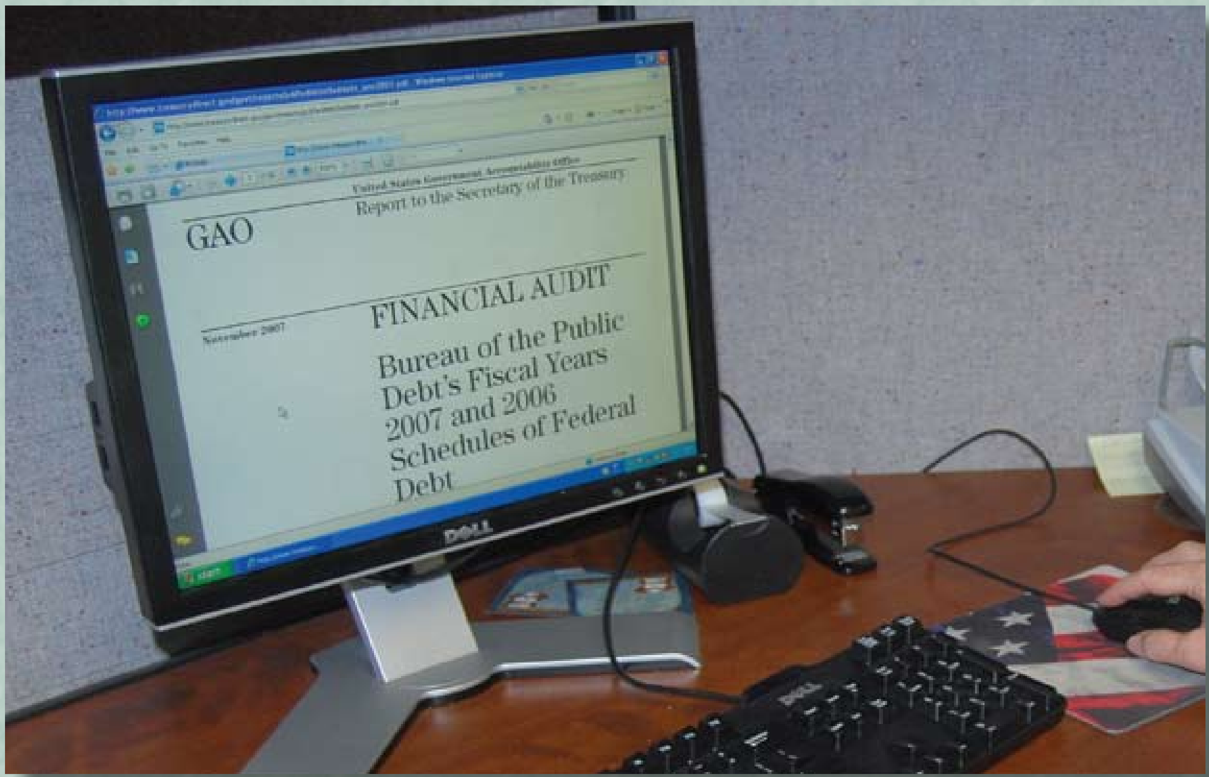
In support of our strategic goal to *effectively account for the debt of the federal government*, our strategies for the Summary Debt Accounting program are:

- Provide timely and accurate data concerning the public debt of the United States.
- Redefine and modernize the debt accounting environment.
- Improve the clarity, usefulness, and availability of federal debt financial information.

PROVIDE TIMELY AND ACCURATE DATA CONCERNING THE PUBLIC DEBT OF THE UNITED STATES.

As our first priority for this program, we will continually demonstrate accounting excellence by producing daily financial statements and receiving unqualified opinions on the annual audits of the *Schedules of Federal Debt*.

We are uniquely positioned to support Treasury's goal of obtaining an unqualified audit opinion on its *Financial Report of the United States Government* by assisting federal



***Schedules of Federal Debt* – The Evolution**

Since 1997, the time to prepare the audited annual *Schedules of Federal Debt* has been shortened significantly from six months after the end of the fiscal year to a mere six weeks. Even though the timetable for financial statement completion has become more compressed, Public Debt has consistently and successfully met all deadlines.

agencies in the proper reporting of certain types of financial transactions. One of the reasons the *Financial Report* has been unable to obtain a clean opinion is directly related to intra-governmental elimination transactions. When financial transactions occur between federal agencies, they should offset and eliminate each other in the consolidated *Financial Report*. Unfortunately, agencies involved in the same transaction often report it differently. The resulting differences, which affect the consolidated *Financial Report*, can stem from simple errors, differing interpretations or misunderstandings of accounting rules, or, for some types of transactions, an absence of standards.

Because of our extensive dealings with many federal agencies in conducting investment and borrowing transactions, we will apply our accounting expertise in this area to support the eliminations effort. This will include proposing solutions to the organizations that set federal accounting policy when standards don't exist or are subject to differing interpretations. Leveraging the relationships developed in our Government Agency Investment Services program, we'll work with federal agencies through one-on-one sessions and seminars to reinforce proper accounting and reporting of investment and borrowing transactions. This advocacy role will bring value to the eliminations effort by minimizing differences.

REDEFINE AND MODERNIZE THE DEBT ACCOUNTING ENVIRONMENT.

The current system that accounts for the public debt of the United States, although sound, presents the challenges of managing aging technology, doesn't fit well within Public Debt's enterprise architecture, and doesn't accommodate rapid change. After determining the need to replace the current system, we have decided to seek an existing shared-service solution to meet our accounting responsibilities, rather than developing a proprietary system as we have in the past. This approach will offer many benefits in terms of a faster migration and reduced operational risks and costs.

Before seeking the desired technology solution, however, we will engage in a thorough re-engineering of the business processes to best support Summary Debt Accounting needs in the future. We will take full advantage of this opportunity to work from a clean slate. This effort will redefine many reporting requirements, responsibilities, and informational needs. It will also produce more consistent processes across the board, drive improvements in the subsidiary reporting systems, and ultimately create greater efficiency within our debt accounting programs at the summary and subsidiary levels.

IMPROVE THE CLARITY, USEFULNESS, AND AVAILABILITY OF FEDERAL DEBT FINANCIAL INFORMATION.

A diverse audience, ranging from government organizations, economists, financial analysts, and academics to the general public, relies on our debt accounting information. To be useful, the data must not only be accurate and timely but also understandable and readily accessible in a useful format. Our objective is to promote a greater understanding of the federal debt and meet the needs of those interested in learning more.

Our website will serve as the primary source of data for those seeking to analyze trends in federal borrowings and related interest rates or needing specific point-in-time information about the debt. We will promote awareness of the extensive amount of data already available on our website and will continue to expand this valuable archive. We will also reach out to current and potential users of our data to determine ways to enhance the presentation of and access to public debt data.

:: FRANCHISE SERVICES

Our Franchise Services program provides superior reimbursable administrative and information technology services to a wide variety of federal agencies that look to us to support their needs reliably and cost effectively. We value the trust our customers place in us, and this drives our goals for excellence in all aspects of our business.

We currently offer administrative services in the areas of financial accounting, travel and relocation services, the full range of human resource services, procurement, and investment accounting. Noteworthy in the administrative arena is our designation by the Office of Management and Budget as a Shared Service Provider for the Financial Management Line of Business. We also have earned, in partnership with Treasury's *HR Connect* Program Office, the designation as one of five Shared Service Providers for the Human Resource Line of Business.

In the area of information technology, we offer application development and hosting, website development, Internet services, network maintenance, security consulting, and encryption services. In July 2006, Treasury was certified as a Shared Service Provider for Public Key Infrastructure (PKI) services. Since that time, this unique and technically challenging business line has grown to the point where we now provide services to 40 percent of the federal civilian market. Many important agencies depend on us for this critical function, including all of Treasury, the National Aeronautics and Space Administration, the Social Security Administration, and the Department of Homeland Security.

Across our franchise business lines, we currently serve more than 70 customer agencies, more than two-thirds of which are non-Treasury organizations. We are committed to growing our franchise businesses, at a pace that also allows us to maintain our high standards for delivering quality customer service.

In support of our strategic goal to *provide highly competitive shared services to federal agencies*, our strategies for the Franchise Services program are:

- Provide the best value in the federal government for administrative and information technology services.
- Champion standardization efforts and best practices to strengthen shared services.
- Guarantee the highest level of compliance to promote customer confidence and service reliability.

PROVIDE THE BEST VALUE IN THE FEDERAL GOVERNMENT FOR ADMINISTRATIVE AND INFORMATION TECHNOLOGY SERVICES.

Our customers define our value to them in terms of reliability, availability, security, quality service, and price, and we intend to exceed their expectations in every category. Obviously, customer service and our supporting systems are the heart of this business, and we are committed to improvements in each. With respect to our systems, we will stabilize our infrastructure and, on behalf of our customers, advocate enhancements in commercial applications that we use. Of particular note, we will migrate our financial management and procurement systems to a new hosting provider. This will enable us to expand the number of customers that we can serve, upgrade applications more quickly, and stabilize prices.

We will improve customer service by exploring alternate methods of service delivery and evaluating our organizational structure. A comprehensive position management study is underway in each of our administrative business lines to identify organizational changes that can drive improvements. In addition, we believe that our responsiveness to customers may be enhanced and further reduction in costs achieved by adding a customer relationship management tool. We'll thoroughly investigate the costs and benefits of this technology before deciding whether to proceed with it. Through these efforts, we plan to set a new benchmark for delivering quality customer service throughout the federal government.

Positioning the full range of Public Debt's franchise business lines to operate as a single program will enable us to consolidate administrative and management processes across all business lines. This, in turn, provides opportunities for operational cost containment and further improvement to our costing and pricing methods. Specific efforts underway include a comprehensive review of all shared costs and development of a single pricing methodology for all of our franchise services. Our customers will be able to rely on our price projections as they budget for future service needs.

CHAMPION STANDARDIZATION EFFORTS AND BEST PRACTICES TO STRENGTHEN SHARED SERVICES.

Standardization is absolutely essential to a solid, well-run Shared Service Provider. We are committed to becoming an innovator in the franchise community by focusing on repeatability, process excellence, cost containment, and risk management. With this standardization and business efficiency will come greater predictability that will benefit our customers.

Our Franchise Services

Our Administrative Resource Center's strength is providing top-quality administrative and information technology services to federal agencies so that they can focus on their missions. Our customers' missions are broad and diverse and touch nearly all aspects of Americans' lives. Examples include exploring space, regulating our banking system, overseeing the integrity of many federal agencies, and defending our nation against terrorist attacks.

As a champion for standardization, we will actively pursue opportunities to improve our business processes and management methodologies. We'll join forces with other federal Shared Service Providers to leverage our strengths, share experiences, discuss improvements for applications, and influence policies affecting Shared Service Providers. We'll also work with governance organizations to further facilitate standardization in the shared-services environment.

With improved business processes fully in place, we will concentrate on instituting a strong governance and control structure. Our recently developed process commits senior management from across all lines of business at Public Debt to participate and ensure appropriate scrutiny and control. This proactive management attention will assure our customers that their business interests are well served.

GUARANTEE THE HIGHEST LEVEL OF COMPLIANCE TO PROMOTE CUSTOMER CONFIDENCE AND SERVICE RELIABILITY.

Although it is an ongoing challenge to meet the universe of ever-changing federal mandates and compliance measures, especially in the areas of information technology security and accounting standardization, we recognize that our customers expect us to attend to this on their behalf. We are well prepared and firmly committed to provide this service so our customers have the peace of mind that comes from knowing that their information and systems are secure and that they will be compliant with external requirements.

Our dedicated staff and robust business processes provide the foundation for our success. These are backed up with solid controls that are tested and audited on a regular basis. Continued adoption of standardization and best practices across our service lines makes it easier and less costly to meet compliance requirements on behalf of our customers.

Our success in minimizing risk to customers is critical to maintaining a reputation for excellence as a Shared Service Provider. We have enabled a number of our customers to obtain unqualified audit opinions for the first time. Our franchise operations enjoy an unbroken record of clean audit opinions, and we aim to maintain this track record through diligent compliance with federally mandated accounting and security requirements.

Key Factors Affecting Public Debt's Strategic Outlook

TECHNOLOGICAL CHALLENGES TO ENSURE SECURITY.

As security threats become increasingly virulent and complex, we'll need to constantly strengthen the protection of our systems and data while continuing to accomplish our mission. Achieving this requires integrating strategic business objectives with security technology. We must provide effective enterprise solutions to protect systems and data against fraud, identity theft, and other cybercrimes. Areas of focus include e-commerce, desktop security, mobile data devices, data encryption, identification and authentication controls, and continuity of operations.

The resources needed to protect our systems and data, as well as new requirements that we need to respond to, represent a significant part of the technology challenge as well.

Failure to adequately meet the security challenges we face could result in a loss of confidence on the part of Treasury investors and the agencies for which we provide services.

STATUTORY IMPACTS ON OUR OPERATIONS.

The most significant, recurring impact on our operations stems from the statutory debt limit. Generally, Treasury is permitted to borrow whatever amount is necessary for the government to meet its financial obligations. The exception is when we near the statutory debt limit, which places a cap on total Treasury borrowing. Periodically, the limit must be increased by Congress to permit necessary borrowing and the continued funding of government operations. If this increase does not occur timely, our financing operations are substantially disrupted. Significant resources are required to deal not only with these so-called debt suspension periods but also the aftermath of restoring the borrowing operations to normal.

Legislation routinely impacts our operations in another area as well. When non-standard legislative language is adopted by Congress to authorize a federal agency to invest or borrow funds, it often requires us to implement customized procedures that increase the complexity and cost of our operations.

The Federal Reserve Connection

The Federal Reserve Banks, as our fiscal agents, are a necessary and integral element in the accomplishment of our Wholesale and Retail program strategies. We'll continue to make effective use of the Federal Reserve's capabilities and expertise to meet our responsibilities to individual and institutional investors in Treasury securities.

While our relationship with Federal Reserve Banks is technically one of principal and agent, in practice it is a dynamic partnership based on common goals of delivering high-quality service and conducting efficient operations. We believe that a values-based relationship with our most significant business partners will produce greater success in our operations. This longstanding relationship, together with the Federal Reserve's association with financial institutions and its unique set of responsibilities for open market operations and payments, provides the federal government with continuous market contact and significant operational flexibility in administering the public debt.

We'll maintain an active, executive linkage with the Federal Reserve Board of Governors, Reserve Bank officials, and appropriate organizations within the Federal Reserve System to assist us in identifying policy issues, developing program direction, resolving problems, and exploring new ideas. We'll continue to involve the Federal Reserve at an early stage in significant issues of mutual concern and expect them to reciprocate.

Our decisions regarding the work that we request the Federal Reserve Banks to do will continue to be based on our assessment of where the work can best be performed. We are committed to having the work done where it can be performed most effectively and efficiently, while maintaining high-quality customer service. We will direct Banks to perform work for us only when such work is appropriate under the fiscal agency relationship.

In overseeing the operations performed for us, we'll provide Federal Reserve Banks with standards for quality and expectations for performance; determine appropriate reporting requirements; and monitor costs, productivity, and results achieved. In doing so, we'll recognize the value of the collaborative relationship, preserve the Banks' flexibility in managing day-to-day fiscal operations, and respect their separate banking responsibilities. We'll continue to provide the Federal Reserve with constructive feedback concerning their operational performance and the quality of their services.

We're responsible for the work that the Federal Reserve Banks perform for us and are accountable for the costs they incur on our behalf. We'll continue to validate the accuracy and appropriate allocation of their costs, and we'll fully reimburse the Banks for the work they perform as our fiscal agents. We'll report to Congress the full costs incurred for administering the public debt, including Federal Reserve services.

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