Agenda -- August 2005 Refunding
Treasury Dealer Meetings July 28-29, 2005
Dealer ___________________

To allow more time for discussion, please e-mail your responses prior to 5:00 p.m. on Wednesday, July 27 to debt.management@do.treas.gov. Even if you are not scheduled to meet with Treasury officials this quarter, your responses are still appreciated.

I. Borrowing Estimates

	Central Estimate	Range that would not surprise you
July-September		
Ending Cash Balance		
October-December		
Ending Cash Balance		

II. Budget Deficit Estimates

FY2005		
FY2006		

III. Quarterly Note Issuance

3-year note		
5-year note		
10-year note		
Avg. 2-year note, Aug – Oct		
Avg. 5-year note, Sept – Oct		
10-year reopening		
10-year TIPS reopening		
5-year TIPS reopening		

Discussion Topics

- Given recent cuts in coupon issue sizes and projections for lower borrowing needs since the last refunding, do you believe the current financing schedule is well-placed? If not, please elaborate on changes that you believe are needed.

- We assume that dealers favor the reintroduction of the 30 year bond for trading, hedging and benchmarking. Are there additional issues that you think we should consider? If so, please describe.

- Recently, there has been an increase in fails episodes, some of which have been acute and or protracted. Part of the explanation for these developments may be the growth of trading volumes in the cash, repo and futures markets relative to the size of individual Treasury issues. The absence of market-based mechanisms to resolve these episodes of chronic fails due to the zero bound on repo pricing has compelled Treasury to consider introducing a securities lending facility.

The design and characteristics of a securities lending facility would ideally:

- Provide additional, temporary supply on rare occasions when market shortages would otherwise generate elevated and protracted fails

- Allow use to be determined by market forces rather than Treasury discretion

- Be uneconomic to use when markets are functioning normally

- Promote liquidity, efficient settlement and investor confidence in the Treasury market

- Uphold Treasury's commitment to "regular and predictable"

We seek your reactions and views on the feasibility of such a facility. Following this initial consideration, if we find support for this idea, many issues would need to be resolved before a securities lending facility could be put in place, including the appropriate pricing mechanism, our statutory authority and operational issues. We would then consult further with market participants, particularly on pricing and operational issues. We plan to follow up with a more detailed proposal at the November refunding and will solicit additional comments at that time.