MINUTES OF THE MEETING OF THE
TREASURY BORROWING ADVISORY COMMITTEE
OF THE BOND MARKET ASSOCIATION
October 28 and 29, 1997

<u>October 28</u>

The Committee convened at 12:40 p.m. at the Treasury Department for the portion of the meeting that was open to the public. All members were present, except Ms. Kenworthy and Messrs. Capra, DeRegt, Horowitz, Kessenich, Napoli, and Pike. The <u>Federal Register</u> announcement of the meeting and a list of Committee members are attached.

Deputy Assistant Secretary for Federal Finance Roger Anderson welcomed the Committee and the public to the meeting. John Auten, Director, Office of Financial Analysis, summarized the current state of the U.S. economy. Jill Ouseley, Director, Office of Market Finance, presented the chart show, which had been released to the public on October 27, updating Treasury borrowing estimates and providing statistical information on recent Treasury borrowing and market interest rates.

The public meeting ended at 1:05 p.m.

The Committee reconvened in closed session at the Madison Hotel at 4:10 p.m. The members were present who had attended the public briefing. Deputy Assistant Secretary Anderson gave the Committee its Charge, which is also attached.

<u>November refunding</u>

The Committee began by considering the attached pro forma financing plan for the October-December quarter that had been prepared in advance by one of the members, using the market borrowing estimates that were released by the Treasury on October 27. (See attached table 1.) The committee voted unanimously to recommend that the Treasury issue $15.0 billion 3-year notes, $11.5 billion 10-year notes (assuming a reopening as discussed below), and $10 billion 30-year bonds. The recommendation differs from the attached pro forma in that 3-year notes are $.5 billion less. On balance, the package represents a $1.0 billion reduction in the 3-year note size from the August refunding; a $0.5 billion reduction in the 10-year note size relative to the August refunding; and a maintaining of the 30-year bond relative to the August refunding.

The Committee also voted unanimously to recommend that Treasury reopen the August 10-year note, given that there are signs of persistent market dislocations in both the cash and RP markets, and that the situation is not expected to ameliorate soon. In addition, the Committee voted unanimously that Treasury maintain the current sizes of coupon offerings for the balance of the current quarter, making up any temporary needs with cash management bills (CMBs) or regular weekly bills.

Marketable financing for the January-March quarter

For the January-March quarter, given the Treasury's forecasted funding needs, the Committee recommended keeping the sizes of coupon offerings the same as recommended for the third quarter, with the exception that 10-year notes would be raised to $12.0 billion . (See attached table 1a.) The chairman pointed out that the pro forma for the first quarter includes large CMBs with April maturities. He noted that having a large volume of CMBs maturing after the April tax date will restrain the bulge in cash balances that occurs in the second half of April, and allow the Treasury to maintain consistent offering sizes of weekly bills in the April-June quarter.

Scheduling of inflation-indexed securities for 1998

The Treasury has already announced that it expects to sell 10-year inflation-indexed securities (IIS) in January 1998, and that it will sell a 30-year IIS some time during 1998. The question to the Committee concerned its recommendation regarding the auction schedule for IIS in 1998, and in particular, where in the financing calendar would the committee recommend that Treasury introduce a 30-year IIS.

Before addressing the timing of the 30-year IIS, the committee discussed how best to integrate the IIS into Treasury's auction calendar. In 1997, IIS were auctioned once per quarter with settlement dates on the 15^{th} of the first month of a quarter. In light of the unexpectedly large drop in the FY97 deficit and forecasts for low deficits in the upcoming year, the members discussed the prudence of increasing the frequency of IIS auctions beyond the quarterly cycle of this year at a time when the sizes of fixed-rate auctions are flat or declining, with net paydowns. In this context, the Chairman noted that at the last meeting in July it was pointed out that the reductions in auction sizes (from their peak amounts of the prior twelve months) that had been implemented by that time had already had a substantial impact on cash raised, of about $75 billion. And if the coupon auction sizes in place in July were maintained for the succeeding twelve months, it would result in raising only $1.6 billion in net new cash. Thus he raised the point that increasing the number of IIS auctions in 1998 would increase the Treasury's dependence on IIS for new cash.

The Committee unanimously recommended that Treasury announce the same quarterly cycle for IIS for 1998, with an auction for 10-year IIS in January, one for 30-year IIS in April, and two more auctions in July and October.

Schedule of the May 1998 mid-quarter refunding announcement and auctions

Treasury's mid-quarter refundings for 3-year and 10-year notes and 30-year bonds typically settle on the 15th of the middle month of a quarter. Counting back from the 15th, the auctions are usually held on the Tuesday, Wednesday, and Thursday (when there is a bond) prior to the 15th, if there is at least one or more days between the last auction and settlement. In May 1998, the 15th falls on a Friday. Because there is no bond scheduled for the May refunding, the Treasury asked the committee's opinion on when to auction the 3-year and 10-year notes in the May 1998 refunding. It was the consensus of the Committee that conducting the auctions on the 12th and 13th of May would provide a sufficient window for WI trading before settlement on Friday, May 15.

Market participants' preparedness for year 2000

The Treasury asked the Committee's views on market participants' preparedness for the year 2000 (Y2K) and whether there are specific ways that the Federal Government in general and the Treasury in particular could or should help to heighten awareness.

All members considered preparation for Y2K to be a significant, and costly, issue. Cost estimates for preparation for Y2K ranged up to $200 million for the firms of Committee members. One member noted that the Federal Reserve and the Comptroller of the Currency are targeting Y2K as one of their themes in bank examinations. Others pointed out that it is not only important for their firms to be prepared, but also the vendors and customers with whom they conduct business. Some firms are sending out notices to vendors and institutional customers requiring that they certify that they are compliant. One member questioned whether the private sector is aware of the Federal Government's efforts to ensure Y2K compliance. Another questioned that awareness of the magnitude of the issue outside the United States and suggested that the Federal Government could help in promoting awareness if foreign markets.

In conclusion, it was recommended that the Federal Government could help in ascertaining the level of readiness for Y2K, focusing on financial service providers, industry-wide service providers, and on foreign markets.

The meeting adjourned at 5:35 p.m.

October 29

The Committee reconvened at 8:30 a.m. at the Treasury in closed session. All members were present, except Ms. Kenworthy and Messrs. Capra, DeRegt, Horowitz, Kessenich, Napoli, Pike, and Wardlaw.

The Chairman presented the Committee report (copy attached) to Under Secretary Hawke, Assistant Secretary Gensler, and Deputy Assistant Secretary Anderson. Assistant Secretary Gensler asked the Committee if the Treasury were to reduce the quarterly package from that recommended by the Committee, what cuts would they recommend. The Committee chairman noted that, if needed, the Committee would be more in favor of trimming the 3-year note than the 10-year or 30-year securities. He pointed out the substantial and ongoing investment and hedging demand for the 10-year note, and that the Committee's recommendation for a slight reduction in the size of this issue is predicated on a reopening. The Chairman indicated that the Committee has provisionally recommended raising the 10-year note back up to $12 billion at the next refunding. Under Secretary Hawke expressed appreciation for the Committee's efforts and dedication to their responsibilities.

The meeting adjourned at 9:05 a.m.

Paul F. Malvey
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Office of Market Finance
Domestic Finance
October 29, 1997

Attachments

Certified by:

Richard Kelly, Chairman
Treasury Borrowing Advisory Committee
of the Bond Market Association
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