**MINUTES OF THE MEETING OF THE TREASURY BORROWING ADVISORY COMMITTEE OF THE BOND MARKET ASSOCIATION**
**February 1, 2000**

The Committee convened at 9:00 a.m. at the Treasury Department for the portion of the meeting that was open to the public. All members were present except Messrs. White and Lyski. The Federal Register announcement of the meeting and a list of Committee members are attached.

Under Secretary for Domestic Finance, Gary Gensler, welcomed the Committee and the public to the meeting. John Auten, Director, Office of Macroeconomic Analysis, summarized the current state of the U.S. economy (statement attached). Paul Malvey, Acting Director, Office of Market Finance, presented the chart show, updating Treasury borrowing estimates and historical debt and interest rate statistics.

The public meeting ended at 9:24 a.m.

The Committee reconvened in closed session at the Madison Hotel at 10:20 a.m. All members were present except Messrs. White and Lyski. Assistant Secretary for Financial Markets, Lee Sachs, gave the Committee the charge, which is also attached.

The Committee began by reviewing long-run proforma financing plans as a basis for discussing the question of how Treasury should make average maturity decisions as the national debt is paid down. The Committee noted that there is no research regarding the optimal average maturity of debt, but that in an environment of declining debt it seemed irrational to lengthen the average maturity. Therefore, they recommended a shortening in the average maturity, after any up drift is first stabilized, as the debt is paid down. To accomplish this, they recommend Treasury commit to reducing longer-term debt issuance and to conduct buybacks. However, one result of this will likely be that liquidity in the long-end of the Treasury market is significantly reduced. The Committee repeatedly emphasized that inflation-indexed securities (IIS) should be greatly reduced as part of the overall plan to decrease longer-term debt.

The discussion then turned to other adjustments Treasury needs to make to its financing plans over the shorter term. As frequently noted in previous Committee meetings over the past year, the Committee expressed a preference for eliminating at least one 52-week bill per quarter and leaving the 2-year auction schedule as is. However, members thought that to be able to reliquify the 13- and 26-week bills, the 52-week bills should be reduced to a quarterly cycle. Accordingly, the Committee recommended cutting 52-week bills from thirteen per year (one every four weeks) to four per year (one every thirteen weeks), beginning with a 52-week bill thirteen weeks after the bill that settles on March 2. If there is opportunity, some of the financing should be redistributed to the regular weekly bills. Members reiterated that the 52-

week bill is a candidate for elimination in the future, as it is viewed as providing the least utility to Treasury and the market relative to other offerings.

On the question of a regular reopening policy, the consensus of the Committee members was that such a policy would have a positive impact on liquidity, particularly if the fiscal outlook continues positive, and with the anticipated reductions in auction sizes. The consensus of the Committee is to have a systematic pattern of reopenings of the 10-year and 30-year securities. From a liquidity perspective, the Committee recommended that Treasury issue a large new 30-year bond at this refunding, followed by a smaller reopening.

The Committee recommended a second reopening of the 6% 10-year notes of 8/15/09. By a vote of 11 to 5 with 1 abstention, the Committee recommended issuing $10 billion of a new 30 1/4 year bond. The 30 1/4 -year maturity reflected a Committee preference for the more popular May and November coupons. Regarding the 10-year note, the Committee recommended a second reopening of the 10-year note, for $8 billion, for liquidity reasons and also, to regularize a cycle for new 10-year note issuance in May and November.

Looking ahead to the April-June quarter the Committee recommended that Treasury issue $10 billion of new 10-year notes and $14 billion of new 5-year notes at the May quarterly refunding. They also proposed that Treasury announce, either at this refunding or some time before the April 30-year IIS auction, that we will eliminate one 30-year IIS per year. They cited several reasons for this move: current market conditions are different than at the implementation of the program, both with regard to forecasted surpluses and higher real rates; the negative impact on the liquidity of other sectors of the Treasury market; cost structure versus nominal securities; the lengthening impact of IIS on the average maturity of the debt; and the relative proportion of debt represented by IIS. During the discussion on IIS, some members suggested completely eliminating the 30-year, while maintaining the 10-year program. Other members suggested another alternative might be to do large/small reopenings with 30-year IIS, for example, issuing a new security at $6 billion in April with a reopening of $3 billion in October.

Returning to the question of buybacks, some members of the Committee recommended a day or two lead time, at least initially, but the consensus was to shorten the lead time to that comparable to what the Fed allows in a coupon pass. Regarding the size of buyback operations, the Committee expressed a preference for eventually more sizeable operations consistent with market conditions.

The Committee next discussed the question regarding the implications for financial markets and the possible risks to the government as Treasury debt declines. With regard to hedging and pricing practices, members reported substantial increases in the use of agencies and swaps as hedging vehicles. In addition, they noted agency and swaps use by broader classes of investors, including end users and dealers, with some members suggesting that end users were utilizing them to an even greater extent than dealers. Members of the Committee noted that the liquidity of these instruments has grown in a favorable market environment, and cautioned that it is still uncertain and unproven how these instruments will perform under more adverse market conditions.

With regard to the increasing globalization of the fixed income markets, members noted that, while in the past Treasuries have been the benchmark, as European and other markets grow while Treasury debt declines, Treasuries will soon be less of a benchmark. Given this, and that about 40 percent of U.S. Treasury debt is held by foreign investors, the impact on the Treasury markets' benchmark status may be to diminish its importance more rapidly as foreign investors look for broader investment choices.

Concerning the growth of Government sponsored enterprises, members of the Committee again mentioned that increased agency debt has helped to provide hedging and pricing vehicles for participants. This, however, has been in a benign and untested credit environment. There was no consensus on how to assess the nature and severity of the potential risks to the Government of Government sponsored enterprises

The meeting adjourned at 12:23 p.m.

The Committee reconvened at the Madison Hotel at 6:20 p.m. All members were present except Messrs. White and Lyski. The Chairman presented the Committee report to Undersecretary Gensler, Assistant Secretary Sachs, and Deputy Assistant Secretary Paulus. A brief discussion followed the Chairman's presentation, but did not raise significant questions regarding the report's content.

The meeting adjourned at 6:30 p.m.

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Paul F. Malvey
Acting Director.
Office of Market Finance
February 2, 2000

Certified by:

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Kenneth M. deRegt, Chairman
Treasury Borrowing Advisory Committee
of The Bond Market Association
February 2, 2000