MINUTES OF THE MEETING OF THE TREASURY BORROWING ADVISORY COMMITTEE OF THE BOND MARKET ASSOCIATION

January 30, 2001

The Committee convened at 10:15 a.m. at the Treasury Department for the portion of the meeting that was open to the public. All members were present except Mr. Lyski. The Federal Register announcement of the meeting and a list of Committee members are attached.

The Committee was welcomed by the Deputy Assistant Secretary for Federal Finance, Michael Paulus. John Auten, Director, Office of Macroeconomic Analysis, summarized the current state of the U.S. economy (statement attached). Fred Pietrangeli, Senior Economist for the Office of Market Finance, presented the chart show, updating Treasury borrowing estimates and historical debt and interest rate statistics.

The public meeting ended at 10:40 a.m.

The Committee reconvened in closed session at the Madison Hotel at 11:20 a.m. All members were present except Mr. Lyski. Deputy Assistant Secretary Paulus gave the Committee its Charge, which is also attached.

The Committee began by discussing the question in the charge regarding other adjustments to Treasury's future borrowing schedule given the continuing projected improvement in the fiscal situation. The Committee felt that the elimination of the 52-week bill was preferable to reducing the frequency of 2-year note issuance citing the same reasons originally stated by the Committee in the May 4, 1999 Report to the Secretary. First, the 52-week bill provided the least utility to the Treasury and to the market, relative to other regular offerings. Second, there are substantial secondary market alternatives, in terms of the supply of short coupons to meet investor needs in the 1-year maturity. Third, the timing of Treasury's cash flow requirements favor preserving the monthly issuance of 2-year notes to help meet the pattern of sizeable early month cash drawdowns for regular benefit payments, as well as monthly retirements of previously issued 5-year notes. Fourth, the market is expecting the 52-week bill to be eliminated. By unanimous consensus the committee agreed that the elimination of the 52-week bill should be the next adjustment to the borrowing schedule.

Next, the Committee considered the large swings in the Treasury cash balances. The idea of possibly issuing a 4-week bill on a weekly basis was raised by Deputy Assistant Secretary Paulus. The Committee noted that cash management bills tend to be an expensive means of financing; a regular 4-week bill issued weekly could serve to help mitigate large swings in cash balances so that reliance on large expensive CMB financing could be reduced. These bills could be issued weekly along with the regular weekly 13- & 26-week bills and vary in size between $6 billion to $16 billion. One member felt that there would be little interest in a 4-week bill with an issue size less than $6 billion. Another member noted that the 1-month point on the yield curve tends to be very liquid and that such an instrument might be well received as long as the issue size meets a minimal liquidity threshold. The committee generally felt that the 4-week bill idea had merit and warranted further exploration.

Following the discussion of short-term financing alternatives, the Chairman raised the topic of longer-term financing, particularly 30-year bond issuance. Some members felt that it was illogical to be issuing 30-year debt when the latest Administration forecasts indicated that the debt would be paid off in about 10 years. They argued that potential costs savings to Treasury from eliminating the 30-year bond would be substantial and that re-entry into this market, should Treasury need to, would be fairly easy since markets adapted quickly. Others argued that a riskless 30-year benchmark should be maintained because it provided a public utility function in that it increased capital markets efficiency; alternatives such as 30-year swaps were much less liquid. Some members remained skeptical about the budget and policy outlook and believed that the near-term elimination of the 30-year bond was not justified. Others suggested that the 30-year bond should be maintained in order to finance the payment of social security benefits at a later date.

The committee held an informal vote regarding the elimination of the 30-year after the August reopening. The informal vote was 11 to 6 with one abstention for elimination of the 30-year after August refunding. The Committee refrained from issuing a formal recommendation at this time until the fiscal situation became clearer.

There was a brief discussion by Committee members regarding changes to handling of FIMA accounts in Treasury auctions. The Committee recommended that the Treasury briefly address the pending changes at the quarterly press conference to provide clarification to market participants.

Regarding the composition of the quarterly refunding, by a unanimous vote, the Committee recommended a reopening of the 5-3/4 percent 5-year notes of 11/15/05 in an amount of $11 billion and an $11 billion issue of a new 10-year note. Finally, the Committee unanimously recommended issuing a new 30-year bond in an amount of $10 billion. Looking at the remainder of the January-March quarter, the Committee recommended that 2-year notes be increased to $11 billion for February and March, and that weekly bills be reduced from $24 billion level to $22 billion level starting in March.

The Committee’s recommendations for the April-June quarter are in the attached table.

The meeting adjourned at 12:25 p.m.

The Committee reconvened at the Madison Hotel at 6:00 p.m. All members were present except Mr. Lyski. The Chairman presented the Committee report to 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 6:15 p.m.

Paul F, Malvey, Director
Office of Market Finance
January 30, 2001

Attachments

Certified by:

James R. Capra, Chairman
Treasury Borrowing Advisory Committee
of The Bond Market Association

Last Updated January 30, 2001

January 30, 2001

COMMITTEE CHARGE

The Treasury would like the Committee's specific advice on the following:

Treasury financing

- The Administration's FY 2002 Economic Outlook, released on January 16, projects a surplus of $256 billion for FY 2001, compared to the Midsession review estimate of $228 billion. Many private sector estimates are even higher. Given the fiscal forecasts, Treasury needs to make additional adjustments to its financing plans this year. In the past, the Committee has recommended that the next adjustment to its borrowing schedule should be either the elimination of the 52-week bill or a reduction in the frequency of 2-year notes. What would you recommend as the next adjustment to Treasury's financing calendar?

- In the process of paying down the marketable debt held by the public, the Treasury has sought to distribute the reduction in borrowing across various maturities in an effort to maintain large, liquid benchmark issues. In the process, the Treasury has reduced the member of coupon security auctions from 39 to 25 per year, and it has reduced the number of 52-week bill auctions from 13 to 4. The reduced number of financing opportunities, and larger swings in net revenues, has contributed to an increase in the magnitudes of the variations in Treasury's cash balances. What actions, if any, would the Committee recommend to help dampen the swings in Treasury cash balances?

- The composition of a financing to refund approximately $25.1 billion of privately held notes maturing on February 15 and to raise approximately $5-7 billion in cash in 5-year and 10-year notes and 30-year bonds.

- The composition of Treasury financing for the remainder of the January-March quarter and for the April-June quarter.

DEPARTMENT OF THE TREASURY

DEBT MANAGEMENT ADVISORY COMMITTEE MEETING

Notice is hereby given, pursuant to 5 U.S.C. App. §10(a)(2), that a meeting will be held at the U.S. Treasury Department, 15th and Pennsylvania Avenue, N.W., Washington, D.C., on January 30, 2001, of the following debt management advisory committee:

The Bond Market Trade Association
Treasury Borrowing Advisory Committee

The agenda for the meeting provides for a technical background briefing by Treasury staff, followed by a charge by the Secretary of the Treasury or his designate that the committee discuss particular issues, and a working session. Following the working session, the committee will present a written report of its recommendations.

The background briefing by Treasury staff will be held at 9:00 a.m. Eastern time and will be open to the public. The remaining sessions and the committee's reporting session will be closed to the public, pursuant to 5 U.S.C. App. §10(d).

This notice shall constitute my determination, pursuant to the authority placed in heads of departments by 5 U.S.C. App. §10(d) and vested in me by Treasury Department Order No. 101-05, that the closed portions of the meeting are concerned with information that is exempt from disclosure under 5 U.S.C. §552b(c)(9)(A). The public interest requires that such meetings be closed to the public because the Treasury Department requires frank and full advice from representatives of the financial community prior to making its final decision on major financing operations. Historically, this advice has been offered by debt management advisory committees established by the several major segments of the financial community. When so utilized, such a committee is recognized to be an advisory committee under 5 U.S.C. App. §3.

Although the Treasury's final announcement of financing plans may not reflect the recommendations provided in reports of the advisory committee, premature disclosure of the committee's deliberations and reports would be likely to lead to significant financial speculation in the securities market. Thus, these meetings fall within the exemption covered by 5 U.S.C. §552b(c)(9)(A).

The Office of Financial Markets is responsible for maintaining records of debt management advisory committee meetings and for providing annual reports setting forth a summary of committee activities and such other matters as may be informative to the public consistent with the policy of 5 U.S.C. §552b.

Lee Sachs

Assistant Secretary

(Financial Markets)

Dated: January 30, 2001

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