MINUTES OF THE MEETING OF THE TREASURY BORROWING ADVISORY COMMITTEE OF THE BOND MARKET ASSOCIATION July 31, 2001

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. Stark and White. The Federal Register announcement of the meeting and a list of Committee members are attached.

The Committee was welcomed by Brian Roseboro, Assistant Secretary for Financial Markets. Karen Hendershot, Acting Director of the Office of Macroeconomic Analysis, summarized the current state of the U.S. economy (statement attached). Paul Malvey, Director of the Office of Market Finance, presented the chart show, updating Treasury borrowing estimates, and debt and interest rate statistics.

The public meeting ended at 9:22 a.m.

The Committee reconvened in closed session at the Madison Hotel at 12:05 p.m. All members were present except Messrs. Stark and White. The Chairman read the charge to the Committee, which is also attached.

The Committee began by discussing any special considerations that should be taken into account in distributing Treasury's financing needs given economic and policy uncertainties. The general view of the Committee was that there is no need to change long-term financing at this time. Underlying this view, the Committee viewed upcoming releases of the updates to the Administration's and Congressional Budget Office's long-term projections as important considerations for planning long-term financing. In addition, the Committee noted that possible recommendations to change the Social Security system would influence long-term financing decisions.

The Committee recognized the effect that the current increase in bill issuance is having on average maturity and debt financing costs, but both factors were considered favorable to Treasury. Increased bill issuance is helping to keep the average maturity of debt from rising and the market has the capacity to absorb increased bill issuance at historically favorable rates. The Committee suggested fairly stable issuance of the new 4-week bill until performance of the bill can be ascertained. Given 4-week bill issuance, however, the Committee does not see the need for issuance of Cash Management bills this fiscal quarter. Aside from increased bill issuance, the Committee's projections suggested modest increases in 2-year notes since there are no end-of-month 5-year notes maturing in July 2003.

On the question of increasing the size of initial auctions while reducing the size of reopenings, the Committee, while generally in favor of the proposal, was hesitant to recommend changes to the current issuance pattern. Some members of the Committee were concerned that a larger-initial / smaller-reopening policy would lead to insufficiently large reopenings, although it was also pointed out that the larger impact of issuance really depended on the total amount of a security issued rather than the amount of any single opening or reopening.

The Committee debated whether to comment further on continued issuance of the 30-year bond. Some members of the Committee said that the market expects Treasury to make a statement on the 30-year bond, while others said that Treasury should keep its options given increased policy and economic uncertainty. Others suggested that Treasury should develop a framework for assessing the "public good" value of the 30-year bond before deciding on its fate.

The Committee next reviewed its position on the 35 percent rule given the alternatives Treasury laid out last week in its Advanced Notice of Proposed Rulemaking (ANPR). While there was some support for the first option, which is listed in the ANPR as Treasury's preferred option, the Committee reiterated its previous position as contained in the May Committee Report to the Secretary. This position is to redefine the NLP to include only the when-issued position when calculating the 35 percent limit on a reopening – an option which the Committee views as easy to comply with and consistent with the objective of ensuring wide distribution at auctions. The Committee also reiterated its support for making the reporting time of net long positions simultaneous with the submission of bids.

The meeting adjourned at 12:58 p.m.

The Committee reconvened at the Madison Hotel at 6:00 p.m. All members were present except Messrs. Stark and White. The Chairman presented the Committee report to the Assistant Secretary for Financial Markets, Brian Roseboro. 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
July 31, 2001

Certified by:

James R. Capra, Chairman
Treasury Borrowing Advisory Committee
of The Bond Market Association
July 31, 2001

July 31, 2001

COMMITTEE CHARGE

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

- Taking into consideration the changes to Treasury's near term financing requirements since Committee last convened, and uncertainties about the economy and revenue outlook for the next few quarters, are there any special considerations that should be taken into account in distributing our financing needs across regular weekly bills, 2-year notes, and the quarterly refunding issues?

- In February 2000, the Treasury announced a policy of regular reopenings of its longer term issues – 5-year and 10-year notes and 30-year bonds. The practice has been for the initial issuance amount to be somewhat larger than the reopening. For example, an initial issuance of $10 billion with a reopening for $8 billion. Would the Committee recommend any changes to this policy, such as increase the initial issuance amount to add liquidity to the market and follow up with a reopening of a smaller amount?

- In May 2001, the Treasury asked the Committee if it should consider modifying current rules regarding the 35 percent rule and the computation of a bidder's net long position in reopenings. The Committee recommended that the auction rules for reopenings be modified so that "the net long position used in the calculation of a bidder's position refers only to the position in the when-issued security." Regarding the 35 percent award limit itself, a majority of the Committee felt there was a need for some threshold limit but was unprepared to state what that limit might be.

  Last week, the Treasury released for comment in the *Federal Register* an Advanced Notice of Proposed Rulemaking (ANPR) regarding potential alternatives to the 35 percent rule and net long position reporting requirements. In light of the set of attached alternatives that were published in the ANPR, would the Committee modify its previous recommendation?

- The composition of a financing to refund approximately $11.9 billion of privately held 10-year notes and 20-year bonds maturing on August 15 and to raise approximately $14-17 billion in cash in 5- and 10-year notes and a 30-year bond.

- The composition of Treasury financing for the remainder of the July-September quarter and for the October-December quarter.

35 Percent Rule and Net Long Position Calculation in Treasury Auctions

The current rule regarding maximum auction awards to a single bidder states that the sum of a bidder's net long position (NLP) in a security and its auction award must not exceed 35 percent. For a reopening, the NLP calculation includes holdings acquired in the WI market for the reopened security plus all holdings of the outstanding security. The options put forth in the ANPR are:

- Subtract from the current holdings component of the NLP up to 35 percent of the combined prior offering amounts of that security. For example, Treasury reopens a note that had a previous offering amount of $10 billion by offering an additional $10 billion, and a bidder already holds $3.5 billion par of that note and no other position in the security. That bidder would be able to exclude $3.5 billion from its NLP calculation for the reopening auction since $3.5 billion is 35 percent of the previous offering amount.

- Eliminate the NLP reporting requirement altogether and reduce the 35 percent limit to 25 percent (or some other amount below 35 percent).

- Keep the current NLP requirement, but compute the 35 percent limit based on the offering amount plus any previous offering amounts. For example, if Treasury offered $10 billion of a Treasury security in a previous auction and offered an additional $10 billion of the security in a reopening, a bidder with no net long position would be able to purchase up to $7 billion ($20 billion x 35%) of the reopening offering.

- Redefine the NLP to include only the when-issued position when calculating the 35 percent limit on the reopening.

- Keep the current NLP calculation requirement, but increase the 35 percent limit.

- Retain both the 35 percent limit and the NLP reporting requirement as they exist now.