

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

October 30, 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. The Federal Register announcement of the meeting and a list of Committee members are attached.

The Committee was welcomed by Timothy Bitsberger, Deputy Assistant Secretary for Federal Finance. 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 9:20 a.m.

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

The Committee began by discussing the potential for more flexibility in the range of 4-week bill auction sizes as well as the week-to-week changes in auction sizes. The general view of the Committee was that the 4-week bill program to date has been successful. The program is developing an investor base and enjoys good support from both dealers and retail investors, and provides a vehicle that allows investors to capture short-term interest rates to a date. Members noted that the 4-week bill trades better than cash-management bills (CMBs) and thus is meeting Treasury's objective for a cheaper alternative to CMBs for managing volatile cash balances. It was the view of the Committee that Treasury could easily increase the weekly auction sizes of 4-week bills to the \$24 billion range before the instrument would start trading on-top of repo. Members stated that the market would begin to anticipate the seasonal financing needs and thus could handle week-to-week auction size variations of between \$4 and \$8 billion.

The Committee next addressed the question in the charge regarding potential changes in Treasury borrowing over the near-term as well as going out the next one to two years in light of the further recent deterioration in the economy, increased fiscal expenditures, and the economic shocks from September 11. It was the Committee's view that no significant changes in Treasury borrowing were currently necessary to address the either optimistic or pessimistic fiscal forecasts over the next several quarters. The Committee noted that the maturing coupon requirements for 2002 and 2003, in conjunction with the adjustments in weekly bills and 2-year note issuance that have occurred to date, provide Treasury with a great deal of flexibility. Changes in the future financing needs over the next several quarters can be addressed through adjustments in 4-week and weekly bill issuance as well as marginal changes in coupon sizes

Regarding the composition of the quarterly refunding, by a unanimous vote, the Committee recommended a \$16 billion issue of a 5-year note and a reopening of the 5 percent 10-year notes of 8/15/11 in an amount of \$6 billion. Looking at the remainder of the October-December quarter, the Committee recommended that the 2-year notes be increased to \$20 billion, and that weekly bills be increased from the \$29 billion level to the \$31 billion level starting in mid November. They recommended that the 4-week bills be increased from \$12 billion to a peak of \$24 billion by mid- November, and then back down to the \$12 billion range by the end of December.

The Committee had a brief discussion about the composition of financing for the January-March quarter. The Committee, having recommended a sizable \$16 billion issue for the 5-year note issue in November, suggested a smaller \$12 billion reopened size of the 5-year note in February. The Committee made this recommendation after a more general discussion of the concept that larger initial offerings of regularly reopened securities tend to enhance benchmark liquidity and tend to prevent new issues from trading tight in financing markets. The larger initial issuance may then be followed by a relatively smaller reopening. The Committee also recommended a cash management bill in February to finance a seasonal cash-balance low. Recommendations for the January-March quarter are in the attached table.

Some members of the Committee expressed a desire for Treasury policy makers to articulate current debt-management intentions and priorities. Recognizing that there were delays in the appointment of key debt-management policy makers at Treasury in the wake of delay in last year's election, these members felt it would be beneficial to debt markets to have Treasury provide such a statement, particularly since the market concerns over benchmark liquidity are still running high.

Other members argued that such a statement at this particular time, when uncertainty in both private and public economic forecasts is high, may limit Treasury's flexibility or may lead to a financing cost premium if the guidance proves to be wrong. These members argued that the Treasury would be better served by waiting a few quarters, adjusting the financing at the margins as needed, and waiting for more information on the fiscal situation to materialize before making such a statement.

Finally, the Committee reiterated concerns over benchmark liquidity. To that end, it recommended that Treasury maintain buybacks, further clarify its policy on off-schedule reopenings, consider the previous recommendation on exchange offerings, and investigate the establishment of a permanent repo facility.

The meeting adjourned at 1:05 p.m.

The Committee reconvened at the Madison Hotel at 6:05 p.m. All members were present. The Chairman presented the Committee report to the Assistant Secretary for Financial Markets, Brian Roseboro and Deputy Assistant Secretary for Federal Finance, Tim Bitsberger. 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

October 30, 2001

Certified by:

James R. Capra, Chairman

Treasury Borrowing Advisory Committee

of The Bond Market Association

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COMMITTEE CHARGE

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

- In August, Treasury introduced a 4-week bill to help smooth large swings in Treasury cash balances and reduce its reliance on cash management bills. Since its introduction, auction sizes have ranged from \$6 billion to \$16 billion with weekly changes in auction sizes between \$1 , 2 billion. Do you see a potential for more flexibility in the range of auction sizes and in the size of week-to-week changes in auction sizes?
- Since the Committee last convened, debt management has been affected by three significant changes since the last quarterly refunding in August: further deterioration in the economy, increased fiscal expenditures, and the economic shock from September 11. As a result, Treasury's short-term borrowing outlook has changed significantly. Some of these effects will be only temporal and others will be more cyclical. Ultimately, however, forecasts pointing to the underlying productivity of the economy and of social security surpluses suggest that Treasury will resume paying down publicly held debt over the longer term. What would you recommend as potential changes in Treasury's borrowing for the current and next quarter? Going out the next one or two years?
- The composition of a financing to refund \$21.6 billion of privately held notes maturing on November 15 to range from paying down less than \$1 billion to raising up to \$3 billion of debt in 5- and 10-year notes.
- The composition of Treasury marketable financing for the remainder of the October - December quarter, including cash management bills if necessary.
- The composition of Treasury marketable financing for the January - March quarter.
- Any other topics related to Treasury's debt management program.