

**MINUTES OF THE MEETING OF THE
TREASURY BORROWING ADVISORY COMMITTEE
OF THE BOND MARKET ASSOCIATION
November 2, 1999**

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 Mr. Axilrod. 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 9:26 a.m.

The Committee reconvened in closed session at the Madison Hotel at 11:45 a.m. All members were present except Mr. Axilrod. Assistant Secretary for Financial Markets, Lee Sachs, gave the Committee the charge, which is also attached.

The Committee began by reviewing a proforma financing plan (attached) for the October-December quarter. The Committee recommended that Treasury achieve its \$70 billion targeted end-of-December cash balance by maintaining weekly bill offerings at \$18 billion through the fourth quarter. The weekly bills could be supplemented by cash management bills that are traditionally issued in late November and early December.

A discussion ensued regarding the question of reopening the 10-year notes (6% 8/15/09). The Committee discussed the trade-offs of the cost savings associated with a new issue, which some members estimated to be 3 to 5 basis points, versus the benefits of having a double issue and the associated greater liquidity, especially going into the new year, in order to assuage market concerns. Members discussed the merits of issuing a new 10-year security in November, and perhaps, implementing a regular reopening policy starting in February with a reopening of the November 10-year note. The Committee proposed, on a 13-to-5 vote, that the November refunding consist of 5-year notes in the amount of \$15 billion and a reopening of the 10-year notes (6% 8/15/09) in the amount of \$10 billion. They recommended that a policy of regular reopenings begin with a new issue in February. They recognized that a regular program of reopenings would require a change in OID regulations and reiterated their earlier recommendation that those rules be amended.

The Committee discussed the composition of Treasury financing for the remainder of the October-December quarter and for the January-March quarter. The members' consensus was that the market was expecting Treasury to issue two CMBs to finance the November and December low cash points. These CMBs would mature after the mid-January tax payment date.

The Committee also suggested that Treasury be clear as to financing needs going into year end to allay market concerns regarding year-end liquidity. Assistant Secretary Sachs indicated that Treasury would be as clear as possible.

Regarding the January-March quarter, the Committee agreed to follow the financing plan in the proforma table (also attached).

The Committee next turned its attention to the question in the Charge regarding the large fluctuations in cash balances over recent years. The Committee discussed whether there were costs associated with large swings, with some members indicating that the weekly bill market was capable of absorbing moderate swings in issue sizes. Other members pointed out that the sizes of the swings were relative to overall issue sizes, with larger swings having less onerous effects on liquidity when overall issue sizes were larger. The members recommended that the Treasury consider eliminating the 1-year bill at some point in the future and increase the sizes of the weekly bills.

In response to the question in the Charge regarding to recommendations on technical issues pertaining to the structure of the buy-back program, the Committee observed the following: A majority of the members agreed that maximum flexibility and minimal transparency would translate into greater cost savings for the Treasury when Treasury is seeking to purchase securities. The Committee generally felt that Treasury should not conduct buy-backs on a regular and predictable basis, and that announcement lead times should be relatively short, but of sufficient length to allow investors to respond. With relatively short lead times and in order to address logistical concerns, the Committee suggested settlement be extended to T+ 3, consistent with the practice in corporate markets. To avoid announcement effects, a consensus of the members felt that announcing targeted maturity sectors was preferable to announcing specific CUSIPs. The clear consensus of the members was that Treasury not, in any way, limit the amount of any given security it would repurchase.

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 Mr. Axilrod. The Chairman presented the Committee report to Assistant Secretary Sachs. A brief discussion followed the Chairman's presentation, but did not raise significant questions regarding the report's content.

The meeting adjourned at 6:10 p.m.

Fred E. Pietrangeli,
Senior Financial Economist
Office of Market Finance
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Certified by:

Kenneth M. deRegt, Chairman
Treasury Borrowing Advisory Committee
of The Bond Market Association
November 3, 1999