

MINUTES OF THE MEETING OF THE  
TREASURY BORROWING ADVISORY COMMITTEE  
OF THE PUBLIC SECURITIES ASSOCIATION  
NOVEMBER 2 AND 3, 1992

November 2

The Committee convened at 10:00 a.m. at the Treasury Department. All members were present (see the attached list).

I gave the Committee an informational background briefing updating Treasury borrowing estimates and historical information relevant to the November mid-quarter refunding. The borrowing estimates and background information had been released to the public on October 30, 1992.

The Committee also received a briefing by a Treasury staff member on current economic conditions, which was followed by a question-and-answer period. Under Secretary Powell then "charged" the Committee to make recommendations on the November Treasury refunding and related matters (see the attached Charge). The meeting adjourned at 11:10 a.m.

The Committee reconvened at 1:00 p.m. at the Madison Hotel. All members were present. The Committee's discussion began with a proposal, which was unanimously adopted, to recommend a refunding package totaling \$37.0 billion.

The Committee then turned to the sizes of the issues to be offered in the refunding and decided unanimously to recommend that the Treasury offer \$15.25 billion of 3-year notes, \$11.75 billion of 10-year notes, and \$10.0 billion of 30-year bonds. These amounts compare with \$15.0 billion of 3-year notes, \$11.0 billion of 10-year notes and \$10.0 billion of 30-year bonds sold in the August 1992 refunding.

The question of reopening was then addressed. The Committee was unanimous in recommending that the Treasury reopen 10- and 30-year securities whenever possible in order to enhance the market liquidity of Treasury issues. The Committee, by a vote of 17 to 2 recommended reopening the 7-1/4% bond of August 15, 2022.

The Committee voted to reopen the 6-3/8% note of August 15, 2002 by a vote of 11 to 8. At the time of the meeting, the note was trading at 96.50 (in decimals), which was below the original issue discount limit of 97.751 (in decimals). But under IRS Notice 92-13 released in March 1992, the tax treatment of the additional amount of the 6-3/8s would be the same as the tax treatment of the outstanding 6-3/8s (that is, original issue discount would not apply), if the Treasury determines that the reopening is to alleviate an acute, protracted shortage of that security.

The Committee referred to the criteria suggested in the Committee's report to the Treasury in March 1992 to determine whether there existed an acute and protracted shortage of the 6-3/8s. The Committee's criteria are: that the borrowing rate for the security in the collateral market be significantly lower than general collateral rates for similar securities; that the security trade notably lower in yield than issues of similar maturity; that the above two conditions exist for a significant period, such as two weeks or so; that there be a reduction in secondary market trading volume; and that there be evidence of a concentration of ownership. The Committee voted by a narrow margin that market conditions in the 6-3/8s met the Committee's criteria in an a way that warranted a recommendation to reopen.

The Committee recommended, by consensus, additions to regular marketable issues and cash management bills to raise needed cash over the rest of the October-December quarter. The Committee consensus was that a \$30 billion cash balance is appropriate on December 31, 1992. By consensus, the Committee also suggested that the Treasury can meet its market borrowing requirement in the January-March 1993 quarter by adding marginally to the sizes of regular issues and decided that a \$20 billion balance is appropriate on March 31, 1993.

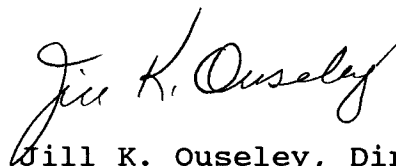
The Committee believed that it is too early to determine whether the Treasury's experiment with single-price auctions has been successful. In order to provide a fair test of the auction procedure, the Committee agreed, by consensus, to encourage the Treasury to continue the experiment for the full 1-year period that was announced by the Treasury in September 1992.

The meeting adjourned at 2:45 p.m.

### November 3

The Committee reconvened at 9:00 a.m. at the Treasury. All members were present, except Mr. McKnew. The Chairman presented the Committee report to Under Secretary Powell, Assistant Secretary Dugan, and Deputy Assistant Secretary Danker. There was a question-and-answer period related to the recommendations. The meeting adjourned at 9:40 a.m.

Attachments



Jill K. Ouseley, Director  
Office of Market Finance  
Domestic Finance  
November 4, 1992