MINUTES OF THE MEETING OF THE
TREASURY BORROWING ADVISORY COMMITTEE
OF THE BOND MARKET ASSOCIATION
August 3, 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. Stark and Mr. Wardlaw. 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, which had been released to the public on August 2, updating Treasury borrowing estimates and historical debt and interest rate statistics.

The public meeting ended at 9:40 a.m.

The Committee reconvened in closed session at the Madison Hotel at 11:45 a.m. All members were present except Mr. Stark and Mr. Wardlaw. Assistant Secretary Sachs gave the Committee its Charge, which is also attached.

The Committee began by reviewing a proforma financing plan (attached) for the July-September quarter. The Committee unanimously agreed to the August refunding recommendation contained in the financing plan. That is, the Committee recommended new issues of 5-year notes in the amount of $15 billion, of 10-year notes in the amount of $12 billion, and of 30-year bonds in the amount of $10 billion. There were no recommendations for reopenings.

In response to the question in the Charge pertaining to recommended changes in financing patterns, the Committee observed that liquidity in the Treasury market is deteriorating. They discussed the long-term importance of maintaining large, liquid supplies of Treasury bills and of notes and bonds. A number of members pointed out the trade-offs between the short-term costs savings to Treasury of having some scarcity value built into the value of on-the-run securities, because of the strong demand relative to supply, and the long-term savings resulting from maintaining large, liquid, world benchmark markets. The clear consensus of the members is that the apparent short-term savings that might be gained from the excess demand relative to supply for the on-the-run securities is more than offset by the longer term costs associated with a loss of liquidity and benchmark status.

The Committee proposed that the Treasury establish a policy of regular reopenings of coupon securities, that could be complemented by a regular program of buybacks. For

example, it was suggested that Treasury could offer two rather than four new 10-year notes per year, reopening each 10-year note once at the subsequent quarterly offering. Another suggestion was that the Treasury offer a new 2-year note in the beginning of each quarter and reopen it two times, for four new 2-year notes per year. A program of buybacks would complement a reopening policy by using funds from issuance of new securities to purchase older, off-the-run securities. Currently, however, the Treasury=s original issue discount (OID) rules would prohibit a reopening if the price of the outstanding security were to fall below a certain level, unless Treasury determined there was an acute and protracted shortage in the security. The Committee unanimously recommended that Treasury seek to change its OID rules in order to gain more flexibility with reopenings. And finally, the Committee recommended that any cutbacks in nominal securities be accompanied by comparable cutbacks in the inflation-indexed securities. The Committee recommended the three proposals by a consensus vote.

Regarding adjustments to the offering cycles of 1-year bills and 2-year notes, the Committee clearly favored making changes to the 1-year bill cycle first. For cash management purposes, it was thought reducing the frequency of year bills would be easier to manage without undue reliance on cash management bills. Monthly 2-year notes mature at ends of months, along with 5-year notes, which taken together currently amount to about $26-28 billion. Year bill maturities, however, are on a 4-week cycle with maturities at various times during months. Regarding the impact on the debt markets, Committee members indicated that it was more important to maintain benchmark 2-year notes on a monthly cycle. Reducing the frequency of year bills, or eventually eliminating them, and distributing the financing needs to 3-month and 6-month bills was viewed as more readily acceptable to the markets.

Regarding the October-December quarter, the Committee was satisfied to follow the financing plan in the proforma table (also attached), amended to include a $2 billion decline in the October indexed note auction, and to include an increase in bill offerings of about $2 billion per week as described below.

The Committee unanimously recommended that Treasury achieve its $80 billion targeted end-of-December cash balance by increasing weekly bill offerings by about $2 billion and maintain that level through the fourth quarter. The higher weekly bills could be supplemented by cash management bills that are traditionally issued in late November and early December.

The meeting adjourned at 12:45 p.m.

The Committee reconvened at the Madison Hotel at 6:00 p.m. All members were present except Mr. Pike. The Chairman presented the Committee report to Assistant Secretary Lee 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.

Paul F. Malvey, Acting Director
Office of Market Finance
August 4, 1999

Certified by:

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