

MINUTES OF THE MEETING OF THE  
TREASURY BORROWING ADVISORY COMMITTEE  
OF THE PUBLIC SECURITIES ASSOCIATION  
October 29 and 30, 1996

October 29

The Committee convened at 11:45 a.m. at the Treasury Department for the portion of the meeting that was open to the public. All members were present, except Messrs. Kessenich, Lyski, McKnew, Napoli, and Thieke. The Federal Register announcement of the meeting and a list of Committee members are attached.

Deputy Assistant Secretary for Federal Finance Roger Anderson welcomed the Committee and the public to the meeting. Assistant Secretary for Economic Policy Gotbaum summarized the current state of the U.S. economy. Paul Malvey, Associate Director, Office of Market Finance, presented the chart show, which had been released to the public on October 28, updating Treasury borrowing estimates and providing statistical information on recent Treasury borrowing and market interest rates.

The public meeting ended at 12:20 p.m.

August refunding

The Committee reconvened in closed session at the Madison Hotel at 2:30 p.m. The members were present who had attended the public briefing. Deputy Assistant Secretary Anderson gave the Committee its Charge, which is also attached.

The Committee began by considering the attached proforma financing plan for the October-December quarter that had been prepared in advance by one of the members, using the market borrowing estimates that were released by the Treasury on October 28. The committee voted unanimously to recommend that the Treasury issue \$18.5 billion 3-year notes, \$10 billion 10-year notes, and \$10 billion 30-year bonds. The committee also voted unanimously to recommend that Treasury reopen the October 10-year note to add to its liquidity in the secondary market. Finally, the committee voted unanimously to recommend that Treasury issue \$13 billion in cash management bills, to mature on December 19, in conjunction with the refunding. The committee also foresaw the need for another cash management bill in late November or early December to mature after the December tax date.

The Committee consensus was that the proforma financing plans suggested for the October-December period and for January-March period seemed appropriate, while adjusting February's 3-year note to \$18 1/2 billion from \$19 billion.

### Inflation-indexed notes

Deputy Assistant Secretary Anderson provided a brief summary of the Treasury's efforts to educate the financial community and the general public about the new inflation-indexed note that is scheduled to be offered in January. Various Treasury officials have spoken and will continue to speak, both domestically and abroad, to dealers, financial institutions, mutual and pension fund managers, and to professional membership organizations to explain the details of the new issue and to promote the marketing and sales of the indexed bonds. Officials have also spoken on a number of occasions to different classes of potential investors. The Treasury has also contacted consumer-oriented newspaper and magazine columnists.

Committee members noted that a number of investment houses have published investor research pieces about the indexed notes, and they expect that the number of articles analyzing the notes will increase over the next month or so. The dealers have also arranged meetings between Treasury officials and various investor groups and expect those efforts to continue.

With respect to the determining the best approach to deciding the size of the first auction, the consensus of the committee was that it should convene at a later time, after more time has been allowed for dealers and other institutions to get a better assessment of ultimate investor interest. At that time, the committee would have better information on which to make a recommendation. The committee did, however, recommend that the Treasury consider postponing the settlement of (only) the first auction from the 15th to the following week in order to ensure better distribution of the new securities in the wake of the holiday season.

### Other topics

It was the consensus of the committee that treating awards at bill auctions to the Federal Reserve as add-ons to the amount sold to the public would be an improvement in that it would give the public better information on the biddable supply. It does not, however, address the issue of foreign add-ons which would remain in the awards to the public. By contrast, for notes and bonds, awards to the Federal Reserve and foreign official institutions are both treated as add-ons to the amounts awarded to the public. However, because bills are offered on a weekly basis, the

committee appreciates the difficulty it would entail in forecasting cash balances if foreign official awards were to be treated as add-ons. It was the consensus of the committee that the Treasury consider the idea of obtaining more timely information from foreign institutions with respect to their plans for participating at T-bill auctions.

The meeting adjourned at 4:40 p.m.

October 30

The Committee reconvened at 8:30 a.m. at the Treasury in closed session. All members were present, except Messrs. Kessenich, Lyski, McKnew, Napoli, and Thieke. The Chairman presented the Committee report (copy attached) to Under Secretary Hawke and Deputy Assistant Secretary Anderson.

In response to questions, the Committee discussed briefly whether the tax treatment of inflation-indexed notes will be an issue affecting investor demand and whether the new indexed notes will replace one of the other regularly scheduled notes or bonds. Tax treatment of the indexed notes was not viewed as a deciding factor affecting demand by what are considered the potential investor classes. Also, the committee expects the indexed notes will be a separate class of securities, not necessarily a substitute for other currently offered Treasury notes or bonds.

The meeting adjourned at 9:05 a.m.

*Paul F. Malvey*

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Domestic Finance  
October 30, 1996

Attachments

Certified by:

*Richard Kelly*  
Richard Kelly, Chairman  
Treasury Borrowing Advisory Committee  
of the Public Securities Association  
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