

MINUTES OF THE MEETING OF THE
TREASURY BORROWING ADVISORY COMMITTEE
OF THE PUBLIC SECURITIES ASSOCIATION
February 4 and 5, 1997

February 4

The Committee convened at 11:30 a.m. at the Treasury Department for the portion of the meeting that was open to the public. All members were present, except Ms. Kenworthy and Messrs. DeRegt, Kessenich, Lodge, Lyski, Napoli, and Wardlaw. 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. John Auten, Director, Office of Financial Analysis, summarized the current state of the U.S. economy. Deputy Assistant Secretary Anderson presented the chart show, which had been released to the public on February 3, updating Treasury borrowing estimates and providing statistical information on recent Treasury borrowing and market interest rates.

The public meeting ended at 11:55 a.m.

February refunding

The Committee reconvened in closed session at the Madison Hotel at 2:15 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 January-March quarter that had been prepared in advance by one of the members, using the market borrowing estimates that were released by the Treasury on February 3. The committee voted to recommend that the Treasury issue \$17.75 billion 3-year notes, \$12.0 billion 10-year notes, and \$10.0 billion 30-year bonds. This recommendation represents a \$0.75 billion reduction in the 3-year note size and a \$2.0 billion increase in the 10-year note size relative to the November refunding. In the Committee's view, a slightly larger 10-year note may add needed liquidity to this sector since an additional conventional 10-year note will not be offered until May. The reduction in the size of the 3-year note offering would partially offset the increase in the 10-year offering and the new cash raised by the recent 10-year inflation-indexed note auction.

The Committee also voted to recommend that Treasury reopen the November 30-year bond to add to the strippable supply of the security. Although the Committee did not see a need to issue a cash management bill (CMB) as part of the February refunding, it does foresee a need for a CMB in early March, with a maturity shortly after the April 15 tax date.

The Committee consensus was that the current sizes of the 2- and 5-year note auctions, as well as the recommended sizes of the refunding issues, should be maintained in the April-June period. However, taking into account the April offering of inflation-indexed securities, and due to the anticipated net paydown in the April-June period, the Treasury should maintain flexibility in the size of coupon issues, with modest downward adjustments possible.

Half-basis point auction bidding for Treasury bills

The Committee saw no disadvantages to the Treasury requiring auction bidding in minimum increments of one-half basis point for Treasury bills and voted unanimously to recommend that Treasury implement the proposal. The Committee believes that half-basis point bidding will promote more efficient and aggressive bidding and is likely to lead to marginally higher auction revenues for the Treasury. In addition, the Committee believes that market participants would need very little lead time to begin half-basis point auction bidding since most market participants already trade the securities in minimum increments of one-half or even one-quarter basis points.

Net long position reporting threshold

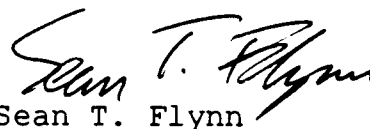
The relatively small amount of Treasury bills available for the public in certain recent weekly bill auctions has decreased the Treasury's ability to enforce the 35 percent bidding rule when bidders' net long positions are less than the \$2 billion reporting threshold. The Committee voted to recommend that the Treasury reduce the net long position reporting threshold to \$1 billion for Treasury bill auctions, while maintaining the \$2 billion threshold for note and bond auctions.

The meeting adjourned at 3:45 p.m.

February 5

The Committee reconvened at 8:30 a.m. at the Treasury in closed session. All members were present, except Ms. Kenworthy and Messrs. DeRegt, Kessenich, Lodge, Lyski, Napoli, Pike, and Wardlaw. The Chairman presented the Committee report (copy attached) to Under Secretary Hawke and Deputy Assistant Secretary Anderson. A brief discussion ensued concerning the net long position reporting threshold.

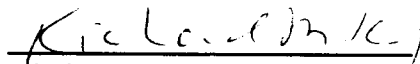
The meeting adjourned at 8:50 a.m.



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Domestic Finance
February 5, 1997

Attachments

Certified by:


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