**MINUTES OF THE MEETING OF THE**
**TREASURY BORROWING ADVISORY COMMITTEE**
**OF THE BOND MARKET ASSOCIATION**
**February 3, 1998**

The Committee convened at 9:30 a.m. at the Treasury Department for the portion of the meeting that was open to the public. All members were present. 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 (statement attached). Jill Ouseley, Director, Office of Market Finance, presented the chart show, which had been released to the public on February 2, updating Treasury borrowing estimates and providing statistical information on recent Treasury borrowing and market interest rates.

The public meeting ended at 9:55 a.m.

The Committee reconvened in closed session at the Madison Hotel at 10:30 a.m. All members were present. 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 2 (attached). The Committee decided, prior to making a refunding recommendation and recommendations for the remainder of the quarter, however, to discuss the portion of the Charge pertaining to alternatives for changes in Treasury market financing.

The discussion of alternatives revolved around two conceptual issues: (1) that the Treasury repurchase older, higher coupon Treasury securities, either through exchanges or reverse auctions in the market or through coupon passes conducted by the Federal Reserve Bank of New York; and (2) that the Treasury change the issuance of new marketable securities. The two were not considered mutually exclusive.

Repurchase program. The Committee discussed the purposes for which the Treasury might use a repurchase program and how a repurchase program might be implemented. The consensus of the members was that a repurchase program should be available to the Treasury. A repurchase program could help the Treasury smooth out increases in the cash balance, allow the

Treasury to maintain the issue sizes of new securities, and conceivably reduce the Government's cost of borrowing. Most of the Committee members favored a repurchase program that the Treasury would use at its discretion instead of a program in which the Treasury would conduct repurchases on a regular schedule.

Changing Treasury issuance. The Committee consensus was that changes in the current new security issuance cycles would be necessary in the event of further improvenents in the Federal budget and corresponding reductions in Treasury financing requirements . The Committee discussed shrinking the sizes of the issues that the Treasury currently sells or changing cycles, for example, dropping a cycle or reducing the frequency of offerings of particular coupon securities. The consensus was that the 10-year notes, 30-year bonds, and bills are about as small as they can be without impairing market liquidity. Regarding the remaining new issue cycles, the Committee favored retaining a monthly 5-year note and was about evenly split between: (a) maintaining quarterly 3-year notes and reducing the 2-year note frequency to 8 per year from the current 12; or (b) eliminating 3-year notes and maintaining monthly new issues of 2-year notes.

Refunding

The Committee discussed the size of the 30-year bond and whether to reopen the 6-1/8% bond of November 15, 2027. They voted by 18-1 to recommend that the Treasury issue $10 billion of a reopened bond. The Committee then turned to the sizes of the 3- and 10-year notes. They voted as follows: 13 for a package consisting of $13 billion 3-year notes and $12 billion 10-year notes; 3 for $14 billion 3-year notes and $11 billion 10-year notes; and 3 for $13 billion 3-year notes and $11 billion of 10-year notes.

Marketable financing for the January-March quarter

The Committee consensus was to adopt the financing plan suggested in the proforma, adjusted to incorporate their February refunding recommendation.

Marketable financing for the April-June quarter

For the April-June quarter, given the Treasury's forecasted funding needs, the Committee by consensus recommended keeping the sizes of coupon and bill offerings the same as the proforma, adjusted to correspond with their February refunding recommendation. The Committee discussed the timing of the first issue of a 30-year inflation-indexed bond. They voted 13 to 6 to recommend that the Treasury sell the indexed bond in a separate financing operation in April, rather than including it in the May refunding.

The meeting adjourned at 12:30 p.m.

The Committee reconvened at the Treasury at 5:00 p.m. All members were present. The Chairman presented the Committee report (copy attached) to Assistant Secretary Gensler and Deputy Assistant Secretary Anderson. Assistant Secretary Gensler asked the Committee

The meeting adjourned at 5:30 p.m.

Jill K. Ouseley, Director
Office of Market Finance
February 3, 1998

Attachments

Certified by:

Stephen Thieke, Chairman
Treasury Borrowing Advisory Committee
of The Bond Market Association
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