**Minutes of the Meeting of the Treasury Borrowing Advisory Committee of the Securities Industry and Financial Markets Association February 2nd**

2/3/2016

The Committee convened in a closed session at the Hay Adams Hotel at 11:30 a.m. All members were present with the exception of Matthew Zames. Counselor to the Secretary Antonio Weiss, Acting Assistant Secretary for Financial Markets Seth Carpenter, Deputy Assistant Secretary for Federal Finance James G. Clark, and Director of the Office of Debt Management Fred Pietrangeli welcomed the Committee. Other members of Treasury staff present were Deputy Director John Dolan, Deputy Director Allen Zhang, Jonah Crane, Jared Roscoe, Michael Puglia, Gabe Mann, Tom Katzenbach, Dave Chung, Tillman Elser, and Kanna Nakamura. Federal Reserve Bank of New York staff members Lorie Logan, Nathaniel Wuerffel, and Jonathan Hill were also present. The meeting began with a review of the TBAC charter and Committee guidelines by Treasury counsel.

Deputy Assistant Secretary Clark noted that demand for Treasury bills is high and is expected to continue to grow throughout FY2016. DAS Clark commented that, consistent with Treasury’s commitment at the November 2015 quarterly refunding to increase bills issuance, Treasury may need to downwardly adjust nominal coupons and TIPS auction sizes.

Next, the Committee turned to a presentation on Treasury bill market dynamics and whether adjustments to nominal coupon and TIPS issuance are necessary to accommodate such an increase in bills issuance. The presenting member began by noting that money market mutual fund reform and the need for high quality assets will likely result in increased demand for Treasury bills. The presenting member estimated that Treasury could meet this demand by increasing bills issuance by $230 billion in FY2016 and by an additional $65 billion in FY2017. The presenting member noted that this increase in bills issuance might justify the introduction of a new bill maturity. However, the presenting member also noted that an increase in bills outstanding of this magnitude was unlikely to result in significantly higher yields for the current suite of bill securities, given the aforementioned demand dynamics.

The presenting member then turned to Treasury’s projected financing needs and the outlook for issuance. The presenting member noted that budget deficits have been shrinking over recent years, but that these deficits are expected to widen going forward. Moreover, the presenting member stated that Treasury’s borrowing needs would be heavily influenced by the Federal Reserve’s SOMA reinvestment policy, particularity in FY2017 and beyond.

Finally, the presenting member concluded by discussing which nominal and TIPS auction sizes could be adjusted. The presenting member suggested that longer-dated nominal coupons should be adjusted, noting that the relative ex-ante cost of issuing debt appears highest in the long end of the coupon curve. Furthermore, the presenting member noted that TIPS issuance should be modestly adjusted. However, the presenting member stated that Treasury should emphasize its commitment to the TIPS program and stress that any reduction in TIPS issuance occurs in the context of an overall reduction of Treasury’s coupon issuance.

A robust discussion by the Committee ensued. Members broadly agreed that the case for increasing bills issuance is strong, but acknowledged that the estimates for bill demand vary widely. As such, several noted that a gradual approach to increasing bills and reducing coupon issuance was prudent. Assuming that Treasury wants to hold the cash balance at levels consistent with recent cash balance policy changes, most members agreed that modest reductions to both coupons and TIPS were necessary. Some members noted that if adjustments were made to coupon issuance, market participants would likely expect concomitant cuts to TIPS issuance.

Members generally agreed that Treasury should consider a variety of factors in determining which tenors to reduce, such as: the relative cost of issuance at various tenors, avoiding the appearance of opportunism, and respecting minimum auction sizes based on feedback from primary dealers. In addition, some members noted that distributing auction adjustments across more tenors would better preserve Treasury’s ability to meet future increases in borrowing needs. Finally, members agreed that adjustments to TIPS issuance would not compromise Treasury’s commitment to the TIPS program. One member raised the question of adjusting FRN issuance. Acting Assistant Secretary Carpenter noted that FRNs are a relatively new product and that it would be premature to reduce issuance sizes.

The Committee adjourned at 1:00 p.m. for lunch.

The Committee reconvened after lunch at 2:00 p.m.

The Committee then turned to the second charge, a presentation on the appropriate level of price transparency and the public availability of trade data in the Treasury market.

The presenting member began by describing TRACE data for corporate bonds and trade reporting in US equity markets. The member highlighted important similarities and differences between these markets and the secondary markets for Treasury securities. The presenting member noted that past improvements in price and trade transparency in Treasury markets primarily resulted from the introduction of direct access platforms.

The presenting member noted that there were significant differences in the availability of trade information in the dealer-to-dealer market relative to the dealer-to-client market for Treasury securities. Next, the presenting member outlined what a trade reporting system for Treasury securities, similar to TRACE, or a swaps data repository might look like. It was noted that off-the-run and on-the-run securities would likely require separate treatment. In addition, the various venues on which Treasury securities trade may also require separate treatment. The presenting member concluded by noting that greater transparency in Treasury markets would help end-users manage risk and could limit market volatility as the Treasury market evolves from a principal-based risk transfer market model to an agency-based risk transfer market model in the coming years.

Following the presentation, the various committee members had a robust discussion on the topic. While there was general agreement that it was beneficial for the official sector to have more timely market data, calibrating the degree of public transparency of such data was critical to minimizing any potential negative market effects. Some members noted that Treasury recently released a Request for Information (RFI) that asked similar questions and suggested that Treasury study the matter further after it has had time to review responses to the RFI.

The meeting adjourned at 2:55 p.m.

The Committee reconvened at the Department of the Treasury at 5:00 p.m. All Committee members were present with the exception of Matthew Zames. The Chair presented the Committee report to Secretary Lew.

A brief discussion followed the Chair’s presentation but did not raise significant questions regarding the report’s content.

The Committee then reviewed the financing for the remainder of the January through March quarter and the April through June quarter (see attached).

The meeting adjourned at 6:00 p.m.

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James G. Clark

Deputy Assistant Secretary for Federal Finance

United States Department of the Treasury

February 2, 2016

Certified by:

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Dana Emery, Chairman

Treasury Borrowing Advisory Committee

Of The Securities Industry and Financial Markets Association

February 2, 2016

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Curtis Arledge, Vice Chairman

Treasury Borrowing Advisory Committee

Of The Securities Industry and Financial Markets Association

February 2, 2016

**Treasury Borrowing Advisory Committee Quarterly Meeting**

**Committee Charge – February 2, 2016**

Fiscal Outlook

Taking into consideration Treasury’s short, intermediate, and long-term financing requirements, as well as uncertainties about the economy and revenue outlook for the next few quarters, what changes to Treasury’s coupon auctions do you recommend at this time, if any?

Path to Increased Bill Issuance

At the November 2015 Quarterly Refunding, and consistent with a recommendation by the Committee, Treasury reaffirmed its commitment to substantially increase Treasury bill issuance. Because of declining deficits, Treasury’s borrowing needs have declined over the last several years.  Thus, in order to increase Treasury bill issuance meaningfully, Treasury will likely need to reduce some nominal coupon or TIPS issuance over the next year or two.

We would like the Committee to discuss the appropriate size of an increase in bill issuance needed over the next couple of years. If a reduction in nominal coupon and TIPS issuance would be required, discuss how Treasury should evaluate issuance across these securities. What criteria should be considered and how should they be weighed against each other?

Treasury Market Data Transparency

The extent of publicly available data on transactions in U.S. Treasury markets is substantially less than what is available for other major asset classes. For example, cash Treasury securities do not have any public transaction or order book reporting.

We would like the Committee to comment the appropriate level and form of data that should be made available to the public, including that related to market prices, trading volumes, market participant inventories, and trends in market risk and liquidity.

Financing this Quarter

We would like the Committee’s advice on the following:

* The composition of Treasury notes and bonds to refund approximately $54.4 billion of privately-held notes maturing on February 15, 2016.
* The composition of Treasury marketable financing for the remainder of the January-March 2016 quarter, including cash management bills.
* The composition of Treasury marketable financing for the April – June 2016 quarter, including cash management bills.