

# Office of Debt Management



Treasury's Current Views on Buybacks as a Policy Tool

May 2023

# Executive Summary

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**This presentation provides a high-level summary of Treasury’s current views on the use cases and design of a potential buyback program.**

- ▶ A Treasury buyback program would focus on two debt management *objectives*:
  - ▶ Liquidity Support: in order to bolster market liquidity, including by establishing a predictable opportunity for market participants to sell off-the-run securities
  - ▶ Cash Management: in order to reduce volatility in Treasury’s cash balance and bill issuance
  
- ▶ Treasury currently believes that a buyback program could provide the greatest benefits to all stakeholders if it adheres to the following *constraints*:
  - ▶ Buyback operations would be “regular and predictable” across tenors
  - ▶ Buyback operations would not be used to fundamentally change the overall maturity profile of the debt outstanding
  - ▶ Buyback operations would not be used to mitigate episodes of acute market stress.
  
- ▶ Treasury would regularly evaluate the success of a buyback program by considering qualitative metrics including surveys and feedback from market participants as well as quantitative metrics related to buyback execution prices.

# Buybacks: Design Parameters

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## TENORS / SECURITY TYPES / PURCHASE BUCKETS

- ▶ Liquidity Support: include nominal coupon and TIPS securities with maturities across the curve. 6-8 purchase buckets by tenor would allow 1-2 operations in each bucket each quarter with operations around once per week
- ▶ Cash Management: likely focused on off-the run nominal coupon and TIPS securities with short maturities
- ▶ A purchase bucket (e.g., [0 to 2y]) could be simultaneously used for both cash management and liquidity support buybacks
- ▶ T-bills, STRIPS, and FRNs likely excluded

## SIZING

- ▶ Liquidity Support: Initially around \$5-\$10 billion per month (or \$60 to \$120 billion annually)
- ▶ Cash Management: Initially up to \$120 billion per year (timing affected by seasonal factors) depending on fiscal flows
- ▶ Sizes to be reevaluated periodically
- ▶ Amounts ultimately purchased may vary depending on market conditions and the quality of offers submitted in an operation
- ▶ This approach is consistent with TBAC recommendations and responses to the April 2023 primary dealer survey

# Potential Communication, Platform, & Participants

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## COMMUNICATION

Treasury would strive to be as transparent as possible with market participants about buyback intentions, consistent with “regular and predictable” framework.

- ▶ Quarterly Announcements: Details about anticipated liquidity support and cash management buybacks to be announced as part of Quarterly Refunding.
- ▶ Pre-Operation Announcements: Notice of a few business days to be provided before conducting a specific buyback operation.
- ▶ Post-Operation Transparency: Results of buybacks to be announced shortly after the operation ends (similar to auction results).

## PLATFORM

- ▶ Using the existing FRB-NY *FedTrade* platform would be the most expedient means of implementing Treasury buybacks.

## PARTICIPANTS

- ▶ Initially, Treasury would conduct buyback operations only with primary dealers, with the understanding that customers may access buyback operations through a primary dealer. In addition, Treasury anticipates assessing the potential costs and benefits of allowing other counterparties to directly participate.

# Financing of Buybacks

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**In general, Treasury believes buybacks should be treated like any other cash outlay for debt management purposes.**

- ▶ Buybacks should not meaningfully impact WAM or other measures of overall maturity profile because they would occur regularly across the curve and be relatively small compared to the amount of debt outstanding.
- ▶ Treasury believes it would be imprudent to try to replace the duration that buybacks remove from the market in real or near-real time; attempts to do so would limit flexibility and run counter to regular and predictable issuance.

# Outstanding Issues for Further Consideration

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- ▶ Optimal “bucket sizes” and relative purchase amounts
- ▶ Minimum purchase amount for each operation
- ▶ Operational frequency
- ▶ “Float” - the minimum amount of a CUSIP that should remain in the market to maintain liquidity

