October 29

The Committee convened at 9:00 a.m. at the Treasury Department. All members were present (see attached list).

I gave the Committee an informational background briefing on Treasury's most recent borrowing estimates and historical information relevant to the refunding. The Treasury's estimates and background information were released to the public on October 28, 1991.

The Committee also received a briefing by a Treasury staff member on recent events in the U.S. economy, which was followed by a question-and-answer period. Under Secretary Glauber then "charged" the Committee to make recommendations on the November Treasury refunding and related matters (see attached charge). The meeting adjourned at 10:40 a.m.

The Committee reconvened at 2:15 p.m. at the Madison Hotel; all members were present, except Stephen Francis, who was ill. The discussion began with a verbal consensus recommendation that the Treasury follow a regular financing plan and allow the cash balance to rise if borrowing needs proved to be less than anticipated.

Prior to voting on the specific refunding package, the Committee briefly discussed, but did not vote on, each of the following ideas: (1) increasing the size of the overall financing package to $38.7 billion from the $38 billion offered in August; (2) cutting back the size of the long bond, by for example $1/2 billion, from the August level; and (3) announcing that the size of the long bond would depend upon market demand.

Once the size of the overall refunding package was decided unanimously, the Committee voted 11-5 to reopen the 7-7/8s of 8/15/2001 and 13-3 to reopen the 8-1/8s of 8/15/2021. Reopenings were recommended to provide for larger, more liquid issues, which would be more difficult to squeeze. The recommended refunding comprises $14 billion of 3-year notes, $12 billion of 9-3/4-year notes, a reopening of the 7-7/8s and $12 billion of 9-3/4-year bonds, a reopening of the 8-1/8s.

The financing plans that were recommended by the Committee for the rest of the October-December quarter and the January-March quarter are included in the Chairman's report of October 30. Several members believed that the Treasury should give more emphasis to 52-week bills, a recommendation that was made formally in July. The Committee decided by consensus (no
vote) that the appropriate levels of the Treasury cash balance are $30 billion on December 31 and $20 billion on March 31, the amounts used in Treasury's financing estimates.

Members stressed the desire to have short when-issued trading periods between the announcement and settlement of Treasury auctions to reduce credit risk for market participants and the Treasury. It recommended that Treasury announce the November 2- and 5-year notes on November 20 for auction November 25 and 26 (vote of 15-1), announce the February, May, August, and November 1992 midquarter refundings on February 5, April 29, August 5, and November 4 (unanimous), and recommended by consensus that Treasury announce the December 2- and 5-year notes on December 13 or 16 (no vote).

In a discussion of related matters, the Committee: (1) decided by consensus that the Committee's prohibition on members contacting their offices prior to the public announcement of the refunding would remain unchanged (no vote taken); (2) discussed some technical problems with the requirements that dealers who bid for customers report their customers' positions in excess of $200 million and with written verification of large winning customer bids through dealers (no specific recommendations); and (3) suggested that there are credit risk questions that need to be better understood in connection with expansion of the number of government securities dealers that can bid for customers, announced by the Treasury on October 25. The sense of the Committee was that the technical matters should be brought up for discussion with Treasury officials, without specific recommendations at this time.

The meeting adjourned at 4:30 p.m.

October 30

The Committee reconvened at 9:00 a.m. at the Treasury. All members were present. The Chairman presented the Committee report to Under Secretary Glauber. There was a question-and-answer period related to the Committee report. The meeting adjourned at 9:40 a.m.

Attachments

Jill K. Ouseley, Director
Office of Market Finance
Domestic Finance
October 31, 1991