MINUTES OF THE MEETING OF THE
TREASURY BORROWING ADVISORY COMMITTEE
OF THE PUBLIC SECURITIES ASSOCIATION
MAY 2 AND 3, 1995

May 2

The Committee convened at 11:45 a.m. at the Treasury Department for the portion of the meeting that was open to the public. Members present were Chairman Francis, Vice Chairman Kelly, Messrs. Ahearn, Bennett, Capra, and Corzine, Ms. Kenworthy, and Messrs. Lakefield, McKnew, Napoli, and Pike, Ms. Recktenwald, and Messrs. Roberts, Rosenberg, Sites, Stark, Thieke, and Wardlaw. The Federal Register announcement of the meeting and a list of Committee members are attached.

Deputy Assistant Secretary for Federal Finance Darcy Bradbury welcomed the Committee and the public to the meeting. Assistant Secretary for Economic Policy Alicia Munnell gave a summary of the current state of the U.S. economy. Jill Ouseley, Director of the Office of Market Finance, presented an informational briefing updating Treasury borrowing estimates and statistical information on recent Treasury borrowing and market interest rates. The borrowing estimates and other information in chart form had been released to the public on May 1, 1995.

The public meeting ended at 12:25 p.m.

The Committee reconvened in closed session at the Madison Hotel at 1:45 p.m. The members listed above, Ms. Bradbury, Mr. Norman Carleton, Director of the Office of Federal Finance Policy Analysis, and Ms. Ouseley were present. Ms. Bradbury gave the Committee its Charge, which is also attached. The Committee first discussed the size of the Treasury cash balance at the end of June. By consensus, a $45 billion balance was recommended. The Committee then turned to the May midquarter refunding, discussing the need to increase the sizes of Treasury coupon issues in order to raise cash needed by the Treasury in the refunding and beyond. A draft proforma that had been prepared by a member of the Committee (attached) was used during the discussion.

The Committee voted 17-to-1 to recommend increasing the 3- and 10-year notes by $1.0 billion each from the levels of the February refunding to $18.0 billion for the 3-year notes and $13.0 billion for the 10-year notes. The vote to recommend a new 10-year rather than to reopen the 7-1/2% note of 2/15/05 was 15-to-3. The consensus was that the Treasury should also issue cash management bills to settle with the refunding issues on May 15. The bills would be a $10.0 billion issue to mature on June 22, 1995 and a $10.0 billion issue to mature on September 21, 1995. The Committee recommended by consensus that the Treasury leave the 2- and 5-year notes at their April levels in the May and June offerings and that the 52-week bill remain at $17.75 billion during the rest of the quarter.

For the July-September quarter, the Committee consensus was that the $30 billion end-of-quarter balance recommended by the Treasury is appropriate. The Committee's preliminary consensus recommendation was that the Treasury increase the sizes of the coupon issues and 52-week bills by $.5 billion each from the sizes in the April-June quarter and increase the 30-year bond by $1.0 billion from the level in the February refunding to $12.0 billion. Two members wanted to recommend an increase of $.5 billion, rather than $1.0 billion in the August 1995 bond. Regular weekly bills would be adjusted appropriately.

Alternative borrowing instruments

Looking forward to 1996, when the 5-year notes which have been offered monthly since January 1991 begin to mature, the Treasury requested in its Charge that the Committee consider whether to recommend that the Treasury issue inflation-indexed debt securities to augment the current regular offerings of Treasury securities.

Japanese yen-denominated debt. Several Committee members suggested that the Treasury consider issuing yen-denominated as soon as possible to raise funds at reduced cost. They suggested that the yen market is an attractive source of funding currently and that other borrowers are taking advantage of financing opportunities in yen.

No recommendation was made on this proposal. Several members were concerned that any foreign denominated currency issuance by the Treasury be undertaken only in the context of achieving broader economic policy objectives.

Inflation-indexed debt. Charts and tables (attached) were reviewed to frame the discussion on indexed securities. Potential demand for inflation-indexed debt was seen from defined contribution retirement plans, which tend to invest conservatively in shorter term instruments, and defined benefit retirement plans, which tend to prefer conservative longer term assets. The potential buyers were not viewed as likely to want to trade their securities, and therefore there was a concern that the market for inflation-indexed securities would be illiquid. In this connection, several members thought an inflation-indexed nonmarketable savings bond would be appropriate.

The discussion then turned to whether the Treasury could sell enough inflation-indexed debt to make mounting a sales effort worthwhile at this time. The consensus was that now is not the time to introduce this new instrument for several reasons relating to: questions that have been raised recently about the accuracy of the consumer price index to measure inflation; the prospect that other debt management innovations, such as floating rate notes, would gain greater market acceptance now; and the Treasury's need to do more market research and to educate the public about inflation-indexed instruments before mounting a sales effort. The Committee did not address the specific terms that the Treasury might offer on inflation-indexed debt.

The meeting adjourned at 4:40 p.m.

May 3, 1995

The Committee reconvened at 8:30 a.m. at the Treasury in closed session. All members were present who attended the May 2 meeting except Messrs. Corzine and Napoli and Ms. Recktenwald. The Chairman presented the Committee report (copy attached) to Deputy Secretary Frank N. Newman and Deputy Assistant Secretary Bradbury.

A discussion followed the reading of the Committee report.

-- Several Committee members believed that it is appropriate now to signal gradual, continuing increases the sizes of coupon issues in the future.

-- Regarding the statutory debt limit, members suggested that the Treasury provide technical briefings on the potential disruptions in Treasury's regular borrowing and the securities markets as a result of a debt limit impasse for Congress members and their staffs who will be working on the issue this summer.

The meeting adjourned at 9:00 a.m.

Jill K. Ouseley

Jill K. Ouseley, Director
Office of Market Finance
Domestic Finance
May 3, 1995

Attachments

Certified by: Stephen C. Francis

Stephen C. Francis, Chairman
Treasury Borrowing Advisory Committee
of the Public Securities Association
May 3, 1995