

**MINUTES OF THE MEETING OF THE
TREASURY BORROWING ADVISORY COMMITTEE
OF THE PUBLIC SECURITIES ASSOCIATION
July 30 and 31, 1996**

July 30

The Committee convened at 11:35 a.m. at the Treasury Department for the portion of the meeting that was open to the public. All members were present, except Mr. Kessenich. The Federal Register announcement of the meeting and a list of Committee members are attached.

Deputy Assistant Secretary for Financial Federal Finance Roger Anderson welcomed the Committee and the public to the meeting. Assistant Secretary for Economic Policy Gotbaum summarized the current state of the U.S. economy. Jill Ouseley, Director, Office of Market Finance, presented the chart show, which had been released to the public on July 29, updating Treasury borrowing estimates and providing statistical information on recent Treasury borrowing and market interest rates.

The public meeting ended at 12:10 p.m.

August refunding

The Committee reconvened in closed session at the Madison Hotel at 2:15 p.m. The members were present who had attended the public briefing. 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 July-September quarter that had been prepared in advance by one of the members, using the market borrowing estimates that were released by the Treasury on July 29. The Committee began with a discussion of whether to recommend reopening the 10-year note issued in July 1996. They voted unanimously to recommend reopening that note in part to add to its liquidity in the secondary market.

The Committee then discussed the sizes of the refunding issues. Two packages were presented:

\$19 billion of 3-year notes, \$10 billion of 9-11/12 year notes in a reopening, and \$10-billion of 30-year bonds -- which received 16 votes; and

\$19 billion of 3-year notes, \$9 billion of 9-11/12 year notes in a reopening, and \$11 billion of 30-year bonds -- which received 2 votes.

The Committee did not see a need for cash management bills as part of the August refunding. The consensus was that, if the Treasury were to trim the size of the refunding package, the 3-year note size should be reduced. The Committee also foresees that the Treasury will need to issue short-term cash management bills for the period from early September until after the September 15 tax payment date.

The Committee consensus was that the proforma financing plan suggested for the October-December seemed appropriate.

Inflation-protection securities

The Chairman opened the discussion with a description of the Canadian structure and the current pay structure that the Treasury had published as possibilities for inflation-protection securities. Deputy Assistant Secretary provided a brief summary of the discussion at the symposium held at the Treasury on July 24,, 1996, on the structure of the inflation-protection securities.

The Committee began by discussing the possible impact of deflation on the value of the inflation-protection bonds, then turned to the specific questions in the Charge:

Structure: In the Canadian model the impact of inflation on the principal accrues over the life of the bond and a fixed-interest coupon is paid currently on the inflation-adjusted principal. In the current-pay method, all of the return that is attributable to inflation and a fixed interest rate are paid each 6 months. The Committee consensus was each model has advantages. The Canadian model would attract pension funds, insurance companies, and individual self-directed retirement savings through 401(k) plans. The current pay structure would attract mutual funds and other investors that are not tax-advantaged and accounts that need greater liquidity. The Committee pointed out that there are tradeoffs between trying to provide inflation protection over the longer term and the short-term considerations pertaining to market liquidity.

Multiple maturities: The Committee consensus recommendation is that the Treasury pick one maturity at least in the beginning, with the preference being for 10 years.

Awarding less than the announced amount: The Committee consensus is that the Treasury should cut back from the announced amount only under extreme circumstances.

Other: The consensus was that when-issued trading for inflation-protection securities should be longer than that for conventional Treasury securities to give market participants more time for price discovery. A 1-week minimum for the WI period was

suggested, although this is no longer than the usual WI period for the regular midquarter refunding operation.

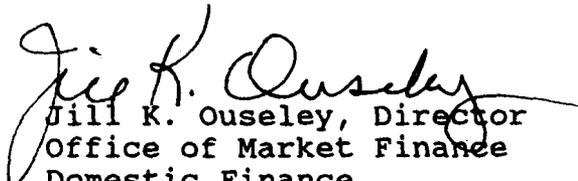
The meeting adjourned at 4:15 p.m.

July 31

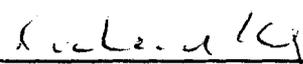
The Committee reconvened at 8:30 a.m. at the Treasury in closed session. All members were present, except Mr. Kessenich and Mr. Lodge. The Chairman presented the Committee report (copy attached) to Assistant Secretary Bradbury and Deputy Assistant Secretary Anderson.

In response to questions, the Committee discussed briefly the amount of time needed by dealers and investors between the Treasury's final announcement of details of inflation-protection securities and the first auction. It will be necessary for market participants to make computer systems changes, and to test them, before the first auction. That time period was estimated in a range of 3 to 6 months.

The meeting adjourned at 9:05 a.m.


Jill K. Ouseley, Director
Office of Market Finance
Domestic Finance
July 31, 1996

Attachments

Certified by: 

Richard Kelly, Chairman
Treasury Borrowing Advisory Committee
of the Public Securities Association
July 31, 1996