MINUTES OF THE MEETING OF THE
TREASURY BORROWING ADVISORY COMMITTEE OF
THE BOND MARKET ASSOCIATION

February 2, 1999

The Committee convened at 9:00 a.m. at the Treasury Department for the portion of the meeting that was open to the public. All members were present. The Federal Register announcement of the meeting and a list of Committee members are attached.

Assistant Secretary for Financial Markets Gary Gensler welcomed the Committee and the public to the meeting. John Auten, Director, Office of Macroeconomic Analysis, summarized the current state of the U.S. economy (statement attached). Paul Malvey, Associate Director, Office of Market Finance presented the chart show, which had been released to the public on February 1, updating Treasury borrowing estimates and historical debt and interest rate statistics.

The public meeting ended at 9:35 a.m.

The Committee reconvened in closed session at the Madison Hotel at 10:25 a.m. All members were present. Assistant Secretary Gensler gave the Committee its Charge, which is also attached.

The Committee began by reviewing a long-term proforma financing schedule for the period ending in FY 2005 and a list of suggested debt management objectives, both of which were prepared by Committee members and are attached to this report. The discussion revolved around a several-pronged approach to distributing downward adjustments in Treasury borrowing taking continuing budget surpluses into consideration. While implementation was not viewed as imminent, this approach would reduce the frequency, but not the size of 2-year notes and 30-year bonds, initiate buy-backs of outstanding Treasury securities to manage the debt maturity structure flexibly and enhance market liquidity, and trim the size of new issues of inflation-indexed notes and bonds.

The Committee then turned to a discussion of the February refunding and the financing for the remainder of the January-March quarter. A proforma financing plan (also attached) for the quarter was distributed by a member to facilitate discussion. The Committee decided unanimously to recommend a new 5-year note in the amount of $16 billion. A majority of the Committee (15-3) voted to recommend reopening the outstanding 4-3/4% Treasury note of 11/15/08. The Committee was evenly divided regarding reopening the 5-1/4% Treasury bond of 11/15/28. Those who favored reopening the bond recommend an amount of $8 billion and a new 10-year note in an amount of $12 billion. Those who favored a new 30-year bond recommend issuing $10 billion of bonds maturing on February 15, 2029 and reopening the 4-3/4% note in an amount of $10 billion.
In the course of the discussion on whether to reopening, one committee member raised an issue regarding the application of the 35 percent rule in such cases. Currently, any one bidder in an auction is allowed to take down up to 35 percent, including the bidder's net long position in the security going into the auction. In the case of a reopening, the holdings of the outstanding issue are also included in a bidder's net long position, while the 35 percent limit is only based on the size of the reopened auction. The recommendation of the member is to include only the net long position in the WI market for the reopened security for purposes of the 35 percent rule.

By consensus, the Committee decided to recommend that the Treasury follow the January-March and April-June financing plans in the proformas, except with adjustments to the auction sizes in the to reflect the Committee's recommendations regarding the February refunding. The proformas did not include the social security trust funds investments in private securities in the February-June period.

The meeting adjourned at 12:20 p.m.

The Committee reconvened at the Madison Hotel at 6:15 p.m. All members were present. The Chairman presented the Committee report to Fiscal Assistant Secretary Hammond. There we no questions.

The meeting adjourned at 6:30 p.m.

Jill K. Ouseley, Director
Office of Market Finance
February 2, 1999

Attachments

Certified by:

Stephen Thieke, Chairman
Treasury Borrowing Advisory Committee
of the Bond Market Association
February 3, 1999
DEPARTMENT OF THE TREASURY

DEPARTMENTAL OFFICES

DEBT MANAGEMENT ADVISORY

COMMITTEE MEETING

Notice is hereby given, pursuant to 5 U.S.C. App. §10(a)(2), that a meeting will be held at the U.S. Treasury Department, 15th and Pennsylvania Avenue, N.W., Washington, D.C., on February 2, 1999, of the following debt management advisory committee:

The Bond Market Trade Association
Treasury Borrowing Advisory Committee

The agenda for the meeting provides for a technical background briefing by Treasury staff, followed by a charge by the Secretary of the Treasury or his designate that the committee discuss particular issues, and a working session. Following the working session, the committee will present a written report of its recommendations.

The background briefing by Treasury staff will be held at 9:00 a.m. Eastern time and will be open to the public. The remaining sessions and the committee's reporting session will be closed to the public, pursuant to 5 U.S.C. App. §10(d).

This notice shall constitute my determination, pursuant to the authority placed in heads of departments by 5 U.S.C. App. §10(d) and vested in me by Treasury Department Order No. 101-05, that the closed portions of the meeting are concerned with information that is exempt from disclosure under 5 U.S.C. §552b(c)(9)(A). The public interest requires that such meetings be closed to the public because the Treasury Department requires frank and full advice from representatives of the financial community prior to making its final decision on major financing operations. Historically, this advice has been offered by debt management advisory committees established by the several major segments of the financial community. When so utilized, such a committee is recognized to be an advisory committee under 5 U.S.C. App. §3.

Although the Treasury's final announcement of financing plans may not reflect the recommendations provided in reports of the advisory committee, premature disclosure of the committee's deliberations and reports would be likely to lead to significant financial speculation in the securities market. Thus, these meetings fall within the exemption covered by 5 U.S.C. §552b(c)(9)(A).

The Office of the Assistant Secretary for Financial Markets is responsible for maintaining records of debt management advisory committee meetings and for providing annual reports setting forth a summary of committee activities and such other matters as may be informative to the public consistent with the policy of 5 U.S.C. §552b.

Gary Gensler
Assistant Secretary
(Financial Markets)

Date: January 11, 1999
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of the Public Securities Association

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February 2, 1999
COMMITTEE CHARGE

The Treasury would like the Committee's specific advice on the following:

General Topics

- Current forecasts predict growing budget surpluses. If the President's proposals are adopted, the debt held by the public in 2014 is projected to be the lowest since World War I as a percent of GDP. What are the possible implications of this for Treasury debt management over the longer term? What are the implications for Treasury debt management over the next two years?
- Given that the realization of long run-forecasts such as these is dependent upon future economic, budget and political behavior, what are the implications for Treasury debt management over the next two years?
- Any other general topics related to the Treasury debt management program.

Treasury financing

- The composition of a financing to refund approximately $27.0 billion of privately held notes maturing on February 15 and to raise approximately $8 to $10 billion of cash in 5- and 10-year notes and 30-year bonds. Does the Committee recommend any reopenings?
- If we were to reduce the size of this refunding, how would you recommend doing so?
- The composition of Treasury marketable financing for the remainder of January-March quarter, including cash management bills to mature in April.
- The composition of Treasury marketable financing for the April-June quarter.

I Debt management objectives in an environment of extended fiscal surplus

1. Seek the lowest long run expected interest cost consistent with low risk (uncertainty) relative to the expectation:

2. Maintain flexibility to respond to changes arising from fiscal policy actions and uncertain economic developments:

3. Preserve, to the extent practical, the liquidity of the key maturity segments of the Treasury bill and coupon markets:

4. Provide transparency and predictability in order to limit the direct and indirect costs of disruptive shifts in Treasury financing plans.

II Additional Considerations

- Use market based, rather than government budget scoring, methods to evaluated the costs of various debt retirement techniques.
- Scale annual specialized instrument issuance (tips) relative to the expected size of annual benchmark coupon issuance, rather than the share of outstanding debt.