

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

May 2, 2000

The Committee convened at 9:10 a.m. at the Treasury Department for the portion of the meeting that was open to the public. All members were present except Mr. Druckenmiller. The *Federal Register* announcement of the meeting and a list of Committee members are attached.

Assistant Secretary for Financial Markets Lee Sachs 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, Acting Director, Office of Market Finance, presented the chart show, updating Treasury borrowing estimates and historical debt and interest rate statistics.

The public meeting ended at 9:40 a.m.

The Committee reconvened in closed session at the Madison Hotel at 11:35 a.m. All members were present except Mr. Druckenmiller. Assistant Secretary for Financial Markets Lee Sachs gave the Committee the charge, which is also attached.

The Committee began by discussing Treasury's experience with debt buybacks, noting that the buyback program to date has been highly successful, characterized by broad domestic participation, high cover ratios, and tight distributions of accepted offers.

Regarding how the Treasury might adjust the buyback program going forward, it was the consensus of the Committee that any approach that reduces uncertainty while maintaining flexibility is in the interests of the Treasury. In general, the Committee expressed a preference for smaller, more frequent operations conducted over limited maturity ranges. It also recommended that the Treasury announce the intended buyback amounts on a quarterly basis, giving the markets an indication of the frequency of operations and the timing.

Committee members noted that the frequency of operations, in conjunction with quarterly targeted amounts, would affect operation sizes. More frequent operations, for example, weekly or biweekly, would make the operation more routine, or less of an event. Also, smaller sizes (\$500 million to \$2 billion depending on the frequency of operations) would be less disruptive to the markets and thus result in better offers - as long as sizes were not so small as to result in a loss of dealer interest. The Committee felt that smaller, more-frequent operation sizes required narrower maturity ranges for the operation, between 3 and 5 years and between 10 to 15 securities.

Regarding the length of the announcement period, the Committee observed that it could probably be shortened to one day without affecting the program, particularly if Treasury were to adopt a regular buyback schedule. A one-day time lead would still be sufficient to allow overseas investors to participate.

Finally, the Committee also generally believed that Treasury would have to conduct buybacks in other sectors of the maturity spectrum, and include callable issues. This was considered necessary because as the buyback program progressed, liquidity would eventually diminish in particular sectors which would affect offer prices.

Next, the Committee considered what additional adjustments Treasury may need to eventually make to its financing schedule given the continuing improvement in the fiscal situation. The Committee reaffirmed its preference, made in previous meetings, that if the fiscal situation were to continue to improve, Treasury should consider eliminating the 52-week bill, as it is viewed as

providing the least utility to Treasury and the market relative to other instruments. Following that, if further reductions in issuance are considered necessary, the Committee recommended that the frequency of 2-year auctions be reduced from monthly to quarterly. It was the consensus of the Committee that Treasury would probably not have to implement these adjustment before the end of FY 2000.

Looking at the remainder of the April-June quarter, the Committee unanimously recommended a reopening of the 6-1/2% 10-year notes of 2/15/10 in an amount of \$8 billion. Also by unanimous vote, the Committee recommended issuing \$14 billion of a new 5-year note. The Committee noted that if the 5-year auction results in a yield between 6.500 and 6.624, the 5-year note would be a reopening of the outstanding 6-1/2% 5/15/05. The Committee's recommendation for financing for the remainder of the quarter and for the next quarter are included in the attached tables.

Finally, some members of the Committee suggested that Treasury study the idea of establishing a facility that would permit bondholders to regularly swap their outstanding notes and bonds, within a particular maturity tranche, into newer, more liquid benchmark issues. Such a mechanism would enhance benchmark liquidity as well as overall market liquidity.

The meeting adjourned at 1:07 p.m.

The Committee reconvened at the Madison Hotel at 6:10 p.m. All members were present except Mr. Druckenmiller. The Chairman presented the Committee report to Undersecretary Gensler and Assistant Secretary Sachs. A brief discussion followed the Chairman's presentation, but did not raise significant questions regarding the report's content.

The meeting adjourned at 6:25 p.m.

*Paul F. Malvey, Acting Director*

*Office of Market Finance*

*May 2, 1999*

## **Attachments**

### **Certified by:**

Kenneth M. deRegt, Chairman  
Treasury Borrowing Advisory Committee  
of the Bond Market Association

Last Updated May 2, 2000

May 2, 2000

## COMMITTEE CHARGE

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

- Given Treasury's experience to date with debt buybacks, what recommendations do you have regarding the program, specifically in terms of operation size, regularity, maturity range, and notice period?
- Given the evidence of continued improvement in the fiscal situation, what recommendations does the Committee have regarding issuance sizes and frequencies? In particular, would the Committee recommend further adjustments in the frequencies of our auctions for 52-week bills or 2-year notes?
- What recommendations does the Committee have with respect to:

The composition of a financing to refund approximately \$30.6 billion of outstanding debt, consisting of \$27.8 billion of privately held notes and \$2.7 billion of called bonds, on May 15 and to pay down approximately \$8.6 to \$10.6 billion of cash.

The composition of Treasury marketable financing for the remainder of the April-June quarter, including cash management bills if needed.

The composition of Treasury marketable financing for the July-September quarter.

Any other topics related to Treasury's debt management program.

**DEPARTMENT OF THE TREASURY**  
**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 May 2, 2000, 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.

*Lee Sachs*  
*Assistant Secretary*  
*(Financial Markets)*

Dated: March 29, 2000

# Treasury Borrowing Advisory Committee of the Public Securities Association

## Chairman

Kenneth M. DeRegt  
Managing Director  
Morgan Stanley Dean Witter & Co.  
1585 Broadway  
New York, NY 10036

## Vice Chairman

James R. Capra  
President  
Capra Asset Management, Inc.  
555 Theodore Fremd Avenue Ste. C-204  
Rye, NY 10580

Daniel S. Ahearn  
President  
Capital Markets Strategies Co.  
50 Congress Street, Ste. 816  
Boston, MA 02109

Lisa W. Hess  
Managing Director  
Zesiger Capital Group LLC  
320 Park Avenue  
New York, NY 10022

Joseph Rosenberg  
Senior Investment Strategist  
Loews Corp.  
667 Madison Avenue  
New York, NY 10021-8087

Richard A. Axilrod  
Managing Director  
Moore Capital Management, Inc.  
1251 Ave of the Americas, 53rd Fl.  
New York, NY 10020

Gedale B. Horowitz  
Senior Managing Director  
Salomon Smith Barney  
388 Greenwich Street, 39th Fl.  
New York, NY 10013-2396

Morgan Stark  
Principal  
Ramius Capital Group  
Chrysler Center  
666 Third Avenue, 26th Floor  
New York, NY 10017

Edward J. Breslin  
Managing Director  
Chase Securities, Inc.  
121 Plandome Court  
Manhasset, NY 11030

Timothy W. Jay  
Managing Director  
Lehman Government Securities, Inc.  
200 Vesey Street, 9th Floor  
New York, NY 10285

Craig Wardlaw  
Executive Vice President  
Bank of America  
Mail Code NCI 007-0606  
Charlotte, NC 28255-0001

Richard S. Davis  
Senior Vice President -  
Head of Fixed Income Investments  
Metlife Investments  
334 Madison Avenue, PO Box 633  
Convent Station, NJ 07961-0633

Thomas L. Kalaris  
President  
Barclays Capital Inc.  
222 Broadway  
New York, NY 10038

Mark B. Werner  
Managing Director  
JP Morgan Securities, Inc.  
60 Wall Street  
New York, NY 10260

Stanley F. Druckenmiller  
Managing Director  
Soros Fund Management  
888 7th Avenue, Suite 3300  
New York, NY 10106

Wayne D. Lyski  
Chairman & Chief Investment Officer  
Alliance Fixed Income Investors  
Alliance Capital  
Management Corporation  
1345 Avenue of the Americas  
New York, NY 10105

Charles D. White  
Managing Director  
Wells Fargo  
Mail Station S4753-040  
3300 West Sahara Avenue  
Las Vegas, NV 89102

Stephen C. Francis  
Vice Chairman  
Fischer, Francis, Trees & Watts, Inc.  
200 Park Avenue  
New York, NY 10166

Michael Mortara  
Partner, Co-head, Fixed Income Division  
Goldman-Sachs & Co.  
85 Broad Street, 26th Floor  
New York, NY 1000417