

**MINUTES OF THE MEETING OF THE  
TREASURY BORROWING ADVISORY COMMITTEE  
OF THE BOND MARKET ASSOCIATION  
August 1, 2000**

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 except Messrs. Axilrod, Kalaris, Martin, and Stark. The Federal Register announcement of the meeting and a list of Committee members are attached.

John Auten, Director, Office of Macroeconomic Analysis, summarized the current state of the U.S. economy (statement attached). Paul Malvey, 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 9:20 a.m.

The Committee reconvened in closed session at the Madison Hotel at 11:40 a.m. All members were present except Messrs. Axilrod, Kalaris, Martin, and Stark. Assistant Secretary for Financial Markets, Lee Sachs, gave the Committee its Charge, which is also attached.

The Committee began by discussing the question regarding how the Treasury might adjust the buyback program going forward. The Committee noted that repurchase operations had become almost a non-event to the market. There were little, if any, market reactions when Treasury conducted buyback operations, even when varying operation sizes and maturity ranges.

Regarding participation in buyback operations, Committee members cited low customer involvement and virtually no foreign participation. Foreign accounts were viewed as buy and hold and generally not considered likely to participate in debt buybacks. Committee members also noted that buyback cover ratios were still well within an acceptable range, although they have, as one would expect, trended down over the first ten operations. One committee member cited customer concern regarding operation turnaround times as a reason for poor customer participation and suggested that smaller operations with fewer securities would be more desirable.

Regarding buybacks overall, the Committee reiterated their previous recommendations that the Treasury continue the practice of announcing quarterly buyback-target amounts and adhere to a regular, predictable, and fairly frequent buyback schedule. Treasury should continue with the one-day announcement period. The members stated that despite little foreign participation, a one-day announcement period remained desirable in order to allow potential overseas investors to participate. The Committee felt that smaller operation sizes, as measured by number of securities, generally resulted in quicker response times and may encourage customer participation. There was also a consensus among Committee members that at some point in the future, Treasury should consider repurchasing securities in maturity sectors other than the 15- to 25-year range. This was considered necessary because as the buyback program

progressed, liquidity would eventually diminish in particular sectors effecting both the volume and prices of offers.

Next, the Committee turned its attention to the question in the Charge regarding other adjustments Treasury may eventually need to make to the current financing schedule given the continuing projected improvement in the fiscal situation. The Committee began by noting that surplus projections had succeeded in raising market awareness of Treasury's near-term debt management plans, particularly concerning long-term debt issuance. Members cited significant uncertainty surrounding the continued issuance of long-term debt, with some investors believing that long-term issuance will soon disappear, while other investors expect Treasury to maintain risk-free benchmarks for policy reasons.

The Committee suggested that Treasury address this uncertainty. They recommended that the Treasury acknowledge the magnitude of the current projections and the longer-term debt-management implications of these projections should they be realized. Second, the Treasury should indicate that even if current projections are realized, significant changes to auction cycles over the near term are unnecessary. Third, no decision has been made concerning the elimination of any particular issue, but the topic is constantly under review. Finally, the Treasury should remind investors that Treasury consistently gives advance notice prior to changing an auction cycle or the elimination of any particular issue.

The Committee next addressed the question in the Charge regarding making 5-year notes issued prior to September 1997 eligible for stripping. The Committee unanimously agreed on the desirability of this action, noting that the 0- to 5-year maturity sector in the STRIPS market was expensive and somewhat illiquid. Allowing old 5-year notes to be eligible for stripping would facilitate reconstitutions in the short end of the curve and enhance overall market liquidity. As a means of further enhancing liquidity, the Committee also recommended that the issue of fungibility of coupon and principal STRIPs be studied.

Regarding the quarterly refunding, by a unanimous vote, the Committee recommended a reopening of the 6-3/4 percent 5-year notes of 5/15/05 in an amount of \$10 billion. Also by unanimous vote, the Committee recommended issuing \$10 billion of a new 10-year note. Finally, the Committee, in total, recommend a reopening of the 6-1/4 percent 30-year bonds of 5/15/30 in an amount of \$5 billion. Looking at the remainder of the July-September quarter, the Committee recommended that 2-year notes remain at \$10 billion for August and September, and that weekly bills be maintained at the \$18 billion level.

Looking ahead to the October-December quarter, the Committee recommended that Treasury issue \$12 billion of new 5-year notes and \$8 billion of reopened 10-year notes at the November quarterly refunding. They recommended that 2-year note sizes remain constant at \$10 billion and that the October 30-year inflation indexed security be a \$6 billion issue size. Weekly bills would be increased slightly to \$19 billion for the quarter.

The meeting adjourned at 12:32 p.m.

The Committee reconvened at the Madison Hotel at 6:00 p.m. All members were present except Messrs. Axilrod, Kalaris, Martin, and Stark. The Chairman presented the Committee report to Undersecretary Gensler, Assistant Secretary Sachs, and Deputy Assistant Secretary Paulus. A brief discussion followed the Chairman's presentation, but did not raise significant questions regarding the report's content.

The meeting adjourned at 6:15 p.m.

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Paul F. Malvey  
Director  
Office of Market Finance  
August 1, 2000

Certified by:

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