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

May 1, 2001

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. Francis, Ahearn, and Davis. The Federal Register announcement of the meeting and a list of Committee members are attached.

The Committee was welcomed by the Deputy Assistant Secretary for Federal Finance, Michael Paulus. John Auten, Director, Office of Macroeconomic Analysis, summarized the current state of the U.S. economy (statement attached). Fred Pietrangeli, Senior Economist for the Office of Market Finance, presented the chart show, updating Treasury borrowing estimates and historical debt and interest rate statistics.

The public meeting ended at 9:30 a.m.

The Committee reconvened in closed session at the Madison Hotel at 11:50 a.m. All members were present except Messrs. Francis, Ahearn, and Davis. Deputy Assistant Secretary Paulus gave the Committee its Charge, which is also attached.

The Committee began by discussing the potential structure of a 4-week bill. The Committee reiterated its statement from the February report, noting that cash management bills (CMBs) tend to be an expensive means of financing and that a regular 4-week bill issued weekly could serve to help mitigate large swings in cash balances so that reliance on large expensive CMB financing could be reduced or eliminated.

Regarding whether a 4-week bill should be issued as a reopening, there was general consensus that 4-week bills should be issued as reopenings with maturity dates corresponding to the maturity dates of the regular 13- & 26 week bills in order to enhance liquidity. There was some debate regarding the minimum and maximum size of a 4-week bill offering. The debate was premised on the members’ view as to whether 4-week bills would replace CMBs.

Some members believed that a program of regular 4-week bill offerings could serve as a replacement for CMBs, i.e., that CMBs could be eliminated altogether. Others saw a 4-week bill as serving to mitigate large swings in cash balances, reducing but not eliminating reliance on CMBs. In either case, members noted that regular issuance of a shorter-term security would be necessary to establish a consistent investor base beyond repo desks. The minimum issue amount was seen at about $5 billion. With a consistent investor base, the members who see a 4-week bill eliminating the need for CMBs, felt that the maximum size of a regular 4-week bill offering could be quite large (up to $40 billion) and could vary significantly from week to week.

The members who viewed the 4-week bill as a vehicle that would allow Treasury to greatly reduce its reliance on CMBs still see a need for CMBs to address the very largest of seasonal cash needs. These members felt that Treasury would be better off stating a broad, but limited, issue size range (from $5 billion to $15-20 billion). The upper bound would give the market better information on potential supply and result in more favorable rates for Treasury.

The Committee generally felt that a 4-week bill offering should be auctioned on a day other than the 13- and 26-week bills, and the consensus was for the day following the 13- and 26 week bill auctions. One member stated that less capital would be committed to each auction if three auctions were to be conducted on the same day, and thus, bidding for the securities might be less aggressive.

The Committee next turned its attention to the question in the charge regarding the current rule that the limits maximum auction awards to a single bidder. The current rule regarding maximum auction awards to a single bidder states that the sum of a bidder’s net long position (NLP) in a security and its auction award must not exceed 35 percent. With Treasury’s policy of regular reopenings, i.e., large initial issuance and smaller reopenings, there is an increased likelihood of a single bidder being precluded from participating in a reopening because the 35 percent is calculated on the reopening amount only but the NLP requirement also includes holdings of the outstanding security.
The Committee felt that the rule should be changed so that only long when-issued positions plus the award amount do not exceed 35 percent in any auction, whether for a new or reopened security. Secondary market maldistributions could be addressed through other existing regulatory mechanisms. There was additionally some debate over whether 35 percent was the "right" threshold number. A large majority of members felt that there was a need for some threshold limit, particularly as auction sizes were declining, but were unprepared to state what that limit might be. One member expressed the view that there should be no limit, i.e., the rule be eliminated entirely.

The Committee also felt that Treasury should clarify for market participants that the "35 percent rule" is effective at auction time even though the dealers are required to report their respective NLPs thirty minutes prior to an auction.

Regarding the composition of the quarterly refunding, by a unanimous vote, the Committee recommended a $12 billion issue of a 5-year note and a reopening of the 5 percent 10-year notes of 2/15/11 in an amount of $8 billion. Looking at the remainder of the April-June quarter, the Committee recommended that the 2-year notes be held at $10 billion for May, and that weekly bills be increased from $18 billion level to $20 billion level starting in mid May.

The Committee's had a brief discussion about the composition of financing for the July- September quarter. It was the consensus of the Committee that Treasury should continue to provide the markets with ample notice about changes in issue cycles and the menu of securities offered. The Committee felt that it was time to eliminate the inflation-indexed security program because of the additional interest costs it was posing to the Treasury. The Committee urged the Treasury to decide as soon as possible on the fate of the 30-year bond and to proceed with the development of rules for exchange offerings. At the same time, some Committee members felt that until the fiscal situation became clearer, Treasury should refrain from any significant changes in cycles and offerings. Recommendations for the July-September quarter are in the attached table.

The meeting adjourned at 12:55 p.m.

The Committee reconvened at the Madison Hotel at 6:00 p.m. All members were present except Messrs. Francis, Ahearn, and Davis. The Chairman presented the Committee report to Acting Under Secretary Don Hammond 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.

Paul F. Malvey, Director
Office of Market Finance
May 1, 2001

Attachments

Certified by:
James R. Capra, Chairman
Treasury Borrowing Advisory Committee
of The Bond Market Association
May 1, 2001

Last Updated May 2, 2001
COMMITTEE CHARGE

The Treasury Department would like the Committee’s advice on the following:

Treasury financing

- With increased volatility in receipts, reduced coupon financings, and the elimination of the 52-week bill, the volatility of Treasury’s cash balance has increased significantly over the last few years. The Treasury is studying issuance of a 4-week bill to help mitigate the large swings. What would your recommendations be regarding such issuance: new CUSIP or reopening; minimum and maximum sizes; 4-week cycle or monthly cycle; regular weekly issuance or only at certain times of the year?

- The current rule regarding maximum auction awards to a single bidder states that the sum of a bidder’s net long position (NLP) in a security and its auction award must not exceed 35 percent. With Treasury’s policy of regular reopenings, i.e., large initial issuance and smaller reopenings, there is an increased likelihood of a single bidder being precluded from participating in a reopening because the 35 percent is calculated on the reopening amount only but the NLP requirement also includes holdings of the outstanding security. For example, if $10 billion of a security is offered initially and it is reopened for $5 billion, a single bidder with a NLP in the outstanding security of $1.75 billion cannot bid for the reopened security. Should Treasury consider modifying the current rule to allow for greater participation in reopenings? Among possible alternatives are: computing the 35 percent calculation on the sum of the initial and reopened auction amounts; excluding holdings of the already outstanding security from the NLP calculation and computing it only on the reopening amount; eliminating the NLP reporting requirement and reducing the 35 percent limit; or other suggestions.

- The composition of a financing with 5-year and 10-year notes to refund approximately $21.4 billion of privately held notes maturing on May 15 and to pay down approximately $1-2 billion.

- The composition of Treasury financing for the remainder of the April-June quarter and for the July-September quarter.
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 1, 2001, 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 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.

Michael J. Paulus
Deputy Assistant Secretary, Federal Finance

Dated: April 2, 2001
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