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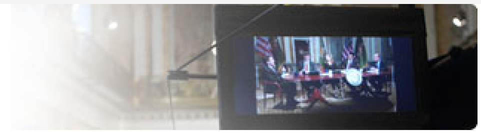

Minutes of the Meeting of the Treasury Borrowing Advisory Committee Of the Securities Industry and Financial Markets Association May 1, 2012

5/2/2012

The Committee convened in closed session at the Hay Adams Hotel at 10:30 a.m. All Committee members were present. Under Secretary for Domestic Finance Mary Miller, Acting Assistant Secretary for Financial Markets Matthew S. Rutherford and Director of the Office of Debt Management Colin Kim welcomed the Committee. Other members of Treasury staff present were Fred Pietrangeli, Jennifer Imler, Amar Reganti, David Chung, Allen Zhang, Daleep Singh, Patricia Kao, Monique Rollins, Tom Mosimann, and Gabriella Csepe. Federal Reserve Bank of New York members Brian Sack and Josh Frost were also present.

Acting Assistant Secretary Rutherford began with a brief review of the fiscal situation, noting that the economy posted a 2.2 percent growth rate in the first quarter of 2012, the eleventh straight quarter of growth since the recession ended in June 2009.

Commenting on the recent April tax season, Rutherford noted that non-withheld taxes were up slightly year-over-year through April 26th. Meanwhile, withheld taxes were up 3 percent year-to-date. Overall, Rutherford noted that there was modest improvement in revenues and the trend was towards further increases in the receipt base.

Rutherford then presented a series of charts showing recent trends in outlays. He noted that the top four outlays on a year-over-year basis were little changed. Social Security outlays were up because of a 3.6 percent cost-of-living adjustment, while Health and Human Services and Education outlays were lower due to ARRA benefits expiring.

Next, Rutherford noted that primary dealer deficit estimates for FY12 were in line with CBO’s latest deficit estimate of about $1.1 trillion, but about $200 billion below the Administration’s FY 2013 budget, which was released in February. Rutherford noted that the Administration’s estimate reflected American Job Act provisions which ultimately were not passed into law.

Acting Assistant Secretary Rutherford next proceeded to discuss Treasury’s marketable debt portfolio. He noted that recently released Treasury borrowing estimates for Q3 FY 2012 and Q4 FY 2012 suggest that Treasury is adequately financed for the remainder of the year. Any imminent financing shortfalls are expected to be made up with increased bill issuance.

Next, Director Kim reviewed several debt metrics. As of March 30th, the average maturity of the portfolio was approximately 62.8 months. In the chart presentation showing the projections for Treasury’s weighted average maturity, Kim adjusted future note and bond issuance on a pro-rata basis to match projected financing needs. The simulation showed that the average maturity continues to extend well above the 3 decade average of 58.1 months. By 2015 it could reach the upper end of the historical range.

Kim emphasized that the average maturity projections and the associated underlying assumptions for future issuance were hypothetical and not meant to convey future debt management policy or an average maturity target. He reiterated that Treasury will remain flexible in the conduct of debt management policy.

Director Kim then turned to recent and future composition of Treasury issuance, noting that bills as a percentage of the overall portfolio continue to decline. The behavior of this metric is consistent with Treasury's desire to gradually extend the average maturity of debt outstanding.

Director Kim then quickly reviewed the demand characteristics within the primary market for Treasury securities over Q2 FY12. He noted that bid-to-cover ratios for bills, while still high by historical standards, had declined from Q1 FY12, when year-end dynamics created unprecedented demand for short-dated debt. Director Kim also noted that bid-to-cover ratios remained high relative to historical levels across most nominal and real maturity points.

The Committee next turned to the charge question on financing.

The Committee unanimously agreed that, based on current borrowing needs projections, the current auction schedule was adequate and no changes to the auction schedule were necessary for the next couple of quarters.

One member asked about the status of negative bidding and awards in Treasury bill auctions. Acting Assistant Secretary Rutherford briefly stated that there were several operational challenges that are currently being addressed. He noted that more information on this topic would likely be shared in the coming months.

Next, the discussion turned to Floating Rate Notes (FRNs). Director Kim presented key takeaways of Treasury's request for information (RFI) on FRNs, stating that most respondents thought this product would be a useful debt management tool. There was a consensus that the product should initially have a maturity of 2 years and under. However, there was a lack of consensus on the reference index, with respondents divided between Treasury bills, the federal funds effective rate, and a Treasury general collateral rate.

After Director Kim's synopsis of key takeaways, Acting Assistant Secretary Rutherford mentioned that Treasury planned to continue to study the benefits and optimal terms of FRNs. Moreover, he noted that system limitations would prevent any possible issuance of FRNs until 2013.

The Committee again unanimously recommended that Treasury pursue an FRN program, citing the merits of expanding the investor base and providing a cost effective means of extending the average maturity. In discussing the best index, the member recommendations were divided, with 4 members voting for Treasury bills, 3 members voting for a general collateral rate, and 6 members voting for the federal funds effective rate.

The Committee next turned to the question in the charge regarding market structure and how fixed income markets have changed over the last few years.

The presenting member enumerated five key changes to fixed income markets that have occurred over the last few years. These included a decline in liquidity in spread products, in part driven by investor risk aversion and the implications of regulatory reform. In addition, the participant noted that increased volatility, driven by a "risk on/risk off" dynamic, now pervades fixed-income markets. The presenting member also cited the changing role of government, noting that central banks globally have taken extraordinary action in response to the financial crisis. In addition, since the crisis, investors are increasingly focused on capital preservation. Finally, the presenter highlighted the increasing role of electronic trading in the Treasury markets.

To conclude, the presenting member felt there were additional areas that warranted further analysis, including potential systemic risks in clearinghouses and the implications posed by reduced banking sector profitability.

The meeting adjourned at 12:00 p.m.

The Committee reconvened at the Department of the Treasury at 5:45 p.m. All Committee members present. The Chairman presented the Committee report to Deputy Secretary Wolin.

A brief discussion followed the Chairman's presentation but did not raise significant questions regarding the report's content.

The Committee then reviewed the financing for the remainder of the January through March quarter (see attached).

The meeting adjourned at 6:15 p.m.

Matthew Rutherford

Deputy Assistant Secretary for Federal Finance

United States Department of the Treasury

May 1, 2012

Certified by:

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Matthew E. Zames, Chairman

Treasury Borrowing Advisory Committee

Of The Securities Industry and Financial Markets Association

May 1, 2012

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Ashok Varadhan, Vice Chairman

Treasury Borrowing Advisory Committee

Of The Securities Industry and Financial Markets Association

May1, 2012

Treasury Borrowing Advisory Committee Quarterly Meeting

Committee Charge – May 1, 2012

Fiscal Outlook

Taking into consideration Treasury's short, intermediate, and long-term financing requirements, as well as uncertainties about the economy and revenue outlook for the next few quarters, what changes to Treasury's coupon auctions do you recommend at this time, if any?

Treasury Market Microstructure

Treasury regularly studies the evolution of fixed income markets, particularly with regard to the changing roles of financial institutions, technological advances, behavior of market participants and regulation.

We would like the Committee's views on how fixed income markets have changed over the last few years and how they may evolve in the future. Please comment on both positive and negative developments. Are there specific market structure concerns that warrant discussion?

Financing this Quarter

We would like the Committee's advice on the following:

- The composition of Treasury notes and bonds to refund approximately $36.7 billion of privately-held notes maturing on May 15, 2012.
- The composition of Treasury marketable financing for the remainder of the April - June quarter, including cash management bills.
- The composition of Treasury marketable financing for the July - September quarter, including cash management bills.

TBAC Recommended Financing Table Q2 2012 TBAC Recommended Financing Table Q3 2012