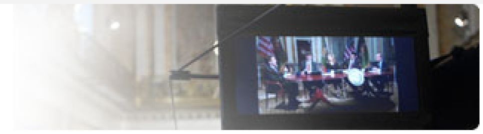
U.S. DEPARTMENT OF THE TREASURY

Press Center



Minutes of the Meeting of the Treasury Borrowing Advisory Committee Of the Securities Industry and Financial Markets Association October 30, 2012

10/31/2012

The Committee was originally scheduled to meet at 11:30 a.m. at the Hay Adams Hotel but instead convened via conference call at 4:05 p.m. due to exceptional weather-related circumstances. Committee members had been informed that attendance at the meeting would be optional. All of the Committee members were present except Ashok Varadhan, Curtis Arledge, Jon Kinol and Stephen Walsh. Under Secretary for Domestic Finance Mary Miller, Assistant Secretary for Financial Markets Matthew S. Rutherford, Deputy Assistant Secretary for Federal Finance James G. Clark, and Director of the Office of Debt Management Colin Kim welcomed the Committee. Other members of Treasury staff present were Fred Pietrangeli, Jennifer Imler, and Amar Reganti. Federal Reserve Bank of New York member Lorie Logan was also present.

Deputy Assistant Secretary James Clark began with a brief review of the fiscal situation, noting that the economy posted a 2.0 percent growth rate in the third calendar quarter of 2012, the thirteenth straight quarter of growth since the recession ended in June 2009.

Clark then discussed the recent trends in receipts. Clark noted that FY12 receipts totaled approximately $2.4 trillion and that this level was approximately 6 percent higher than receipts in FY11. Deputy Assistant Secretary Clark noted that corporate taxes came in notably stronger than the comparable quarter last year, rising 33 percent. This was the largest year-over-year increase in corporate tax receipts since 2010. This increase can be attributed largely to the continued economic expansion and the reduction in the accelerated depreciation rate. Clark then noted that both withheld and non-withheld taxes for 3Q CY12 continued to rise modestly as well, with an increase of approximately 4 percent over the comparable quarter last year.

Turning to government expenditures, Deputy Assistant Secretary Clark then reviewed the ten largest outlays in FY 2012. He noted that three of the four largest outlays had posted notable declines since last year, with Treasury expenditures having dropped most significantly. Treasury expenditures fell $69 billion or roughly 13 percent, largely as a result of lower interest payments. On the other hand, social security expenditures rose from FY 2011, with total expenditures increasing $37 billion. This was the result of a 3.6 percent cost of living adjustment and broader demographic trends which had led to a larger number of social security recipients.

Clark noted that while net issuance of State and Local Government Series (SLGS) securities declined by approximately $3.5 billion in 4Q 2012, the total issuance for FY 2012 increased by $6.7 billion. The rise for the year largely reflected the increased issuance of debt by state and local governments to take advantage of record low yields.

Next, Deputy Assistant Secretary Clark noted that primary dealer deficit estimates for FY13 were notably higher than those released by the CBO, given that the CBO's estimates assumed that all revenue and expenditure provisions would follow current law. However, the primary dealers' FY 2013 estimates were largely in line with those found in the Administration's FY13 Mid-Session Review (MSR) released in late July.

Director Kim then provided a brief overview of historical and projected net marketable borrowing. He briefly explained the interest rate assumptions used in the fiscal projections. Assuming that future issuance remained constant, Director Kim noted that Treasury was underfunded by more than $225 billion in FY 2013.   However, he also noted that there is a significant amount of uncertainty surrounding FY 2013 funding needs. Kim further noted that the magnitude of the underfunding declines over the next several years but then trends higher at year 2019 and beyond. One member asked if the borrowing projections included the impact of the Federal Reserve's maturity extension program (MEP). Director Kim noted that the projections did include the MEP impact.

Next, Director Kim reviewed several debt metrics. As of September 28th 2012, the average maturity of the portfolio was approximately 64.4 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 and continues Treasury's policy of extending the portfolio's weighted average maturity. He 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 also reiterated that Treasury will remain flexible in the conduct of debt management policy.

Director Kim then quickly reviewed the demand characteristics within the primary market for Treasury securities over Q4 FY12. Director Kim noted that bid-to-cover ratios remained high relative to historical levels across all securities. He concluded with a brief review of investor trends in auctions, noting that primary dealers increased their portion of bill and short coupon awards in Q4 FY12 while investment funds continued to increase their awards of nominal coupons over the same period.

A discussion on financing then proceeded. TBAC members generally agreed that the Committee should recommend that the Treasury keep coupon financing unchanged over the remainder of the quarter, given the high degree of fiscal uncertainty.

A Committee member asked about Treasury's readiness to allow Treasury bill auctions to clear at negative rates. Assistant Secretary Rutherford replied that Treasury had not yet made a determination whether to allow for negative rate bidding but that Treasury encourages market participants to study their systems and report any operational issues that could arise if such a decision were made. Rutherford also noted that Treasury was on schedule to conduct the first FRN auction late next year. The Committee concluded with a discussion on general market conditions. The call concluded at 4:36pm.

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Matthew Rutherford

Acting Assistant Secretary for Federal Finance

United States Department of the Treasury

October 30, 2012

Certified by:

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Matthew E. Zames, Chairman

Treasury Borrowing Advisory Committee

Of The Securities Industry and Financial Markets Association

October 30, 2012

Treasury Borrowing Advisory Committee Quarterly Meeting

Committee Charge – October 30, 2012

<u>Fiscal Outlook</u>

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?

<u>Financing this Quarter</u>

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

- The composition of Treasury notes and bonds to refund approximately $63.1 billion of privately-held notes maturing on November 15, 2012.
- The composition of Treasury marketable financing for the remainder of the October - December quarter, including cash management bills.

The composition of Treasury marketable financing for the January - March quarter, including cash management bills

TBAC Recommended Financing Table Q4 2012 and TBAC Recommended Financing Table Q1 2013