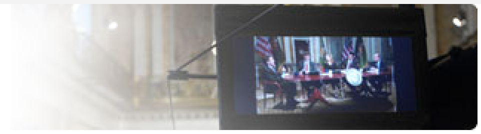

Minutes of the Meeting of the Treasury Borrowing Advisory Committee Of the Securities Industry and Financial Markets Association November 5th, 2013

11/6/2013

The Committee convened in closed session at the Hay Adams Hotel at 11:30 a.m. All members were present. Acting Deputy Secretary and Under Secretary 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 Fred Pietrangeli welcomed the Committee. Other members of Treasury staff present were Deputy Director Amar Reganti, John Dolan, Jamie Franco, and Sundar Swaminathan. Federal Reserve Bank of New York staff members Simon Potter and Michael McMorrow were also present.

Deputy Assistant Secretary (DAS) Clark began by discussing recent trends in receipts. Clark noted that individual non-withheld tax receipts continued to have a strong year-on-year performance, albeit at a slower pace than the last quarter. Similarly, withheld taxes continued to post strong gains.

Clark then showed a chart with the eleven largest outlays in the fiscal year to date. He noted that HHS saw a $38 billion (4.5 percent) increase related to Medicare and Medicaid outlays. He also noted that there was a $46 billion (5.6 percent) increase to Social Security-related expenses, primarily as a result of cost of living adjustments and an increase in the number of recipients. Treasury expenses were lower, driven largely by higher dividend payments from both Fannie Mae and Freddie Mac. Clark also noted that there was a sharp decline in Treasury nonmarketable borrowing, due to the closure of the State and Local Government Series (SLGS) window over the last quarter.

Clark then reviewed budget deficit data and stated that the numbers remained broadly unchanged from the last refunding as the market awaited new publications from the OMB and CBO. Primary dealer estimates for Treasury borrowing remained somewhat lower than OMB estimates, but DAS Clark noted that several dealers appeared to not add student loan and federal direct lending programs into their deficit estimates in order to calculate net marketable borrowing estimates. He emphasized it was important for primary dealers to incorporate this portion of federal borrowing needs into their forecasts.

After DAS Clark completed his overview, Director Pietrangeli began by briefly reviewing sources of financing for Q4 of FY 2013. Pietrangeli then stated that Treasury's net borrowing need for Q1 FY 2014 was estimated to be $266 billion. Based on September 30th issuance levels, Treasury would issue $163 billion in net new financing, consisting of a paydown of $39 billion in bills, offset by $202 billion in net new coupons. He called attention to the implied change in financing for Q1 FY 2014 of $103 billion. He noted that these projections assumed the debt issuance pattern that was in effect at the end of September 2013 and therefore reflected a low level of bill issuance. Thus, the majority of the $103 billion in financing needs could be met through adjusting bill issuance.

Pietrangeli then reviewed the component forecast of Treasury's borrowing needs. He noted that in the coming years, the largest component of borrowing needs would be for interest payments. Pietrangeli also showed the projected path of debt-to-GDP and net debt-to-GDP, with the difference in the former and latter numbers reflecting the stock of financial assets and direct loans on the federal balance sheet.

Next, Pietrangeli reviewed several debt metrics. As of September 30th 2013, the weighted average maturity (WAM) of the portfolio was approximately 66.7 months. By 2020, this number would reach 80 months, if the relative proportions for coupon issuance remained constant when meeting borrowing needs.

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 would remain flexible in the conduct of debt management policy.

Pietrangeli then quickly reviewed the demand characteristics within the primary market for Treasury securities over Q4 FY 2013. Pietrangeli noted that bid-to-cover ratios remained high relative to historical levels across all securities, although there was a slight decline in all non-bill categories. He also noted that while several categories of investors had exhibited more restrained demand during this period, investment funds had increased their participation in longer-dated coupon securities. DAS Clark also mentioned that the 4-week bill auctions from October were not included in this chart, and would show weaker bid-to-covers for several auctions during the recent debt ceiling impasse.

The Committee then turned to the topic of the first auction for the Treasury Floating Rate Note (FRN) that is scheduled for January 2014. The discussion focused on what impact, if any, a potential debt limit debate would have the first auction. Committee members broadly agreed that the first FRN auction should go forward as planned given the anticipated demand from market participants for the new Treasury security.

Next, the Committee turned to the question of whether Treasury's issuance schedule remained appropriate given the required financing needs. After a brief discussion of the fiscal outlook, the Committee unanimously recommended that Treasury leave auction sizes for its 2- and 3-year coupon securities unchanged while continuing to monitor fiscal developments.

Following the discussion on Treasury coupon auctions, some Committee members commented on the implications that certain regulatory proposals, including the Supplementary Leverage Ratio (SLR), could have on demand for Treasury securities in the primary market. Committee members indicated that liquidity for Treasury securities in the secondary market could decline as a result of repurchase agreement netting restrictions contained in the preliminary rule making language for the SLR.

The Committee then turned its attention to the charge related to electronic trading. The presenting members gave a detailed analysis on the taxonomy of electronic trading. The presenters commented on the evolution of electronic trading in foreign exchange and equity markets and noted that fixed income markets had begun to see a noticeable increase to volumes traded electronically. The presenters concluded that while high frequency trading appeared to have increased liquidity in the market, this clearly benefited on-the-run issues relative to off-the-run issues. Some Committee members also suggested that the liquidity provided to the market through electronic trading was small on a relative basis and unlikely to persist during periods of market turbulence. The presenters noted that a singular electronic trading platform was unlikely to emerge in the fixed income market due to the varying product sets and needs of market participants.

Finally, the Committee discussed a proposal regarding greater engagement with external participants in order to undertake longer-term analytical projects that would assist the Committee in its role as an advisor to the Treasury. A member presented the possibility of working with academics over the course of a year on a topic of interest to the Committee.

The Committee was clear that the goal of any such engagement should be to provide analytical information to Committee members in the form of a presentation.

The Committee then discussed a topic for a first project— a framework for thinking about an optimal debt issuance strategy. Committee members opined that this was an important topic for the Committee to better understand and that it was worthy of a long-term project. Members unanimously agreed to proceed with engaging with outside resources on this topic.

The meeting adjourned at 12:45 pm.

The Committee reconvened at the Department of the Treasury at 5:00 p.m. All Committee members were present. The Chairman presented the Committee report to Secretary Lew.

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 remainder of the October through December quarter and the January through March quarter (see attached).
The meeting adjourned at 6:00 p.m.

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James G. Clark
Deputy Assistant Secretary for Federal Finance
United States Department of the Treasury
November 5th, 2013

Certified by:

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Dana Emery, Chairman
Treasury Borrowing Advisory Committee
Of The Securities Industry and Financial Markets Association
November 5th, 2013

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Curtis Arledge, Vice Chairman
Treasury Borrowing Advisory Committee
Of The Securities Industry and Financial Markets Association
November 5th, 2013

Treasury Borrowing Advisory Committee Quarterly Meeting
Committee Charge – November 5th, 2013

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?

High Frequency Trading

Over recent years, technological advances have had a significant impact on the way assets are traded in fixed income markets. Specifically, with the rise in electronic trading, its associated participants and execution strategies have accounted for an increasing percentage of the traded volume in secondary fixed income markets.

We would like the Committee to comment on the increase of High Frequency Trading (HFT) and Algorithmic Trading (AT) in fixed income markets, and specifically in the Treasury market. To what extent has this trading technology permeated fixed income trading? How has it changed market dynamics?

TBAC Recommended Financing Table Q4 2013 and TBAC Recommended Financing Table Q! 2014