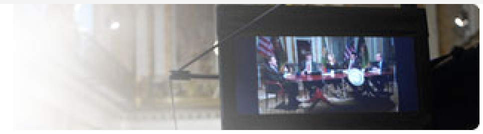

Minutes of the Meeting of the Treasury Borrowing Advisory Committee Of the Securities Industry and Financial Markets Association April 29, 2014

4/30/2014

The Committee convened in closed session at the Hay Adams Hotel at 9:30 a.m. All members were present. 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 Fred Pietrangeli welcomed the Committee. Other members of Treasury staff present were Deputy Director Amar Reganti, Deputy Director Allen Zhang, Won Chung, Jamie Franco, Sundar Swaminathan and Tom Katzenbach. Federal Reserve Bank of New York staff members Nathaniel Wuerffel and Ezechiel Copic were also present.

Deputy Assistant Secretary (DAS) Clark began by discussing recent trends in receipts. He noted that corporate taxes exhibited continued strength in Q2 FY2014. Non-withheld taxes had also been strong, with receipts maintaining the elevated levels that had been experienced last fiscal year.

Clark then showed a chart with the eleven largest outlays in the fiscal year to date. He noted that the largest change was a decline in the Treasury category, reflecting a GSE deferred tax asset payment at the end of calendar year 2013.

Clark then reviewed budget deficit data and stated that the numbers were tracking at their lowest levels since 2008. He noted that the primary dealers' projected FY 2014 net marketable borrowing of $650 billion was notably lower than both OMB's projection of $920 billion and CBO's projection of $757 billion. He speculated that this was likely the result of the fact that CBO and OMB accounted for the repayment of certain extraordinary measures that had been used in FY2013 while the estimates from the primary dealers did not. Once this difference was accounted for, the estimates for net marketable borrowing in FY2014 looked more closely aligned.

Director Pietrangeli turned the Committee's attention to page 13, which showed that Treasury's net marketable borrowing need for Q3 FY 2014 was estimated to be negative $78 billion, the largest quarterly paydown in seven years. Pietrangeli then addressed the borrowing needs relative to the amount of money raised with the current issuance calendar. He noted that estimates from the primary dealer community indicated that Treasury was over-financed by approximately $237 billion for FY 2014 and FY 2015. Pietrangeli noted that longer-term financing needs were partly dependent on whether the Federal Reserve reinvested or redeemed the SOMA Treasury portfolio.

Next, Director Pietrangeli reviewed several debt metrics. As of March 31, 2014, the weighted average maturity (WAM) of the portfolio was approximately 66.7 months. He noted that the slight upward tick in WAM in April is due to the maturity of approximately $140 billion of CMBs. By 2023, this number would reach 80 months, if the relative proportions for coupon issuance remained constant to meet projected 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 in order to finance the government at the lowest cost over time.

Pietrangeli then quickly reviewed the demand characteristics within the primary market for Treasury securities in Q2 FY2014. He noted that bill bid-to-cover ratios, particularly for the 4-week bill, have rebounded strongly since the October debt limit resolution. He also noted that although bid-to-cover ratios for TIPS have declined in recent years, they remain elevated relative to pre-2009 averages.

The Committee then turned to the charge on potential risks to the Treasury portfolio and potential ways in which they could be addressed. The presenting member went into a detailed description of the level and volatility of Treasury's maturity and coupon payments in refunding months. The presenter noted that Treasury would be forced to rapidly change its bills issuance in order to meet these payments going forward. The presenter also stated that the size of the coupon and maturity payments in the portfolio increase Treasury's exposure to exogenous operational risks, where Treasury would not have access to its traditional funding markets. The presenter cited three times in recent history where Treasury faced such a market disruption, including: the terrorist attacks on 9/11, Super Storm Sandy, and the TAAPS system error of December 3, 2013.

Given the risks associated with a volatile maturity profile, the presenter then reviewed some of the tools that Treasury could use to mitigate those risks. The presenter cited a higher cash balance, changing the auction calendar from quarterly 10-year and 30-year issuances to monthly issues, moving the 3-year issuance to a quarterly cycle, and using buybacks to reduce the volume of securities maturing on a given day.

The presenting member noted that a higher cash balance should be considered by Treasury, citing the notable gap between Treasury's daily cash balance and its anticipated funding needs. The member stated that the cost to the taxpayer from holding a significantly higher cash balance could be low. He also noted that Treasury remained an outlier relative to other developed market debt managers in terms of holding a cash balance policy that would insure against the risk of situations where normal access to funding markets may be disrupted or delayed. A spirited debate ensued among the participants.

The Committee agreed that Treasury should present a proposal for a cash balance framework that better accounts for these risks at the August meeting. TBAC suggested that this proposal include possibilities regarding potential ways to fund such a liquidity buffer. The Committee was also supportive of Treasury's examination of other tools to manage its volatile maturity profile, including potential changes to the issuance calendar, buybacks, and switches.

Finally, the Committee turned to the charge that discussed the appropriate level of financing for the United States. All Committee members agreed that Treasury remained overfunded in the near term, and could begin a gradual set of cuts to its 2-year and 3-year securities. Several members noted that the recommendation to lower short-dated coupon issuance was made separately from the previous discussion of an appropriate cash balance and how to best fund it.

The meeting adjourned at noon.

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 the remainder of the April through June quarter and the July through September 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
April 29, 2014

Certified by:

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Dana Emery, Chairman
Treasury Borrowing Advisory Committee
Of The Securities Industry and Financial Markets Association
April 29, 2014

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Curtis Arledge, Vice Chairman
Treasury Borrowing Advisory Committee
Of The Securities Industry and Financial Markets Association
April 29, 2014

Treasury Borrowing Advisory Committee Quarterly Meeting
Committee Charge – April 29, 2014

Risk Mitigation

As prudent debt managers, Treasury regularly considers ways to effectively manage potential risks associated with the Treasury portfolio. We would like the Committee's views on the effectiveness and practicality of the following: (1) the use of buybacks to smooth the maturity profile, manage cash balances, and provide cost savings to the taxpayer; (2) modifications to the current auction schedule, particularly for 10- and 30-year securities, as a means of more evenly distributing Treasury's maturity profile; (3) optimizing the cash balance as a means of reducing operational and market access risk.

TBAC Recommended Financing Table Q2 2014 and TBAC Recommended Financing Table Q3 2014