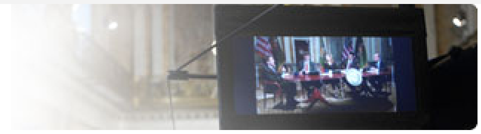

Minutes of the Meeting of the Treasury Borrowing Advisory Committee of the Securities Industry and Financial Markets Association August 4th

8/5/2015

The Committee convened in closed session at the Hay Adams Hotel at 11:30 a.m. All members were present. Counselor to the Secretary Antonio Weiss, Acting Assistant Secretary for Financial Markets Seth Carpenter, Deputy Assistant Secretary for Federal Finance James Clark, and Director of the Office of Debt Management Fred Pietrangeli welcomed the Committee. Other members of Treasury staff present were Deputy Director Allen Zhang, Deputy Director John Dolan, Laura Lipscomb, Dave Chung, Chris Cameron, Tom Katzenbach, Michael Puglia, and Gabriel Mann. Federal Reserve Bank of New York staff members Simon Potter, Lorie Logan, and Nathaniel Wuerffel were also present.

Deputy Assistant Secretary (DAS) Clark began by highlighting the Executive Summary page, which now precedes the Treasury presentation to TBAC. This new Executive Summary provides a high-level overview of the quarter-over-quarter change in various debt management-related statistics.

DAS Clark proceeded to specifically reference the ‘Sources of Financing in Fiscal Year 2015 Q4’ section, which notes that Treasury is projected to be over-financed by $44 billion for the quarter ending September 2015, based on the current auction schedule and forecasted net marketable borrowing numbers.

DAS Clark also reiterated the impact that the Federal Reserve reinvestment policy may have on Treasury’s projected net marketable borrowing needs over the coming years, noting that the cumulative difference in financing requirements could run into the hundreds of billions of dollars.

Next, the Committee turned to the presentation on “regular and predictable” as a tenet of Treasury debt management.

The presenting member cited the various benefits and opportunity costs of regular and predictable. Lower costs and a more liquid yield curve were among the benefits mentioned. More specifically, the presenting member estimated that Treasury has saved $27 billion since 1998 by monetizing the liquidity premium that results from the regular and predictable framework.

The presenting member proceeded to highlight the positive externalities that arise from being regular and predictable for financial markets more broadly. For example, the presenting member noted that Treasury’s provision of a liquid benchmark curve benefits the corporate bond and Treasury derivative markets by providing a basis for hedging interest rate risk and pricing credit risk. In the United States, corporate issuers have a preference for pricing relative to liquid benchmark issues. This, in turn, enhances the liquidity premium of on-the-run Treasury securities and creates a mutually beneficial relationship.

The presenting member acknowledged that the regular and predictable framework could have opportunity costs, such as limiting Treasury’s ability to monetize market dislocations or rapidly respond to changes in term premium or inflation risk premium. Nevertheless, any attempts at timing the market were cited as potentially resulting in increased uncertainty and higher borrowing costs over time. The presenting member concluded by emphasizing that regular and predictable as a tenet of Treasury debt management is even more important today than it has been historically.

The Committee then turned to the charge on long-term issuance. The presenting member began by noting that long-term interest rates have declined to levels not seen since the 1960’s and that some market participants have suggested that Treasury increase the amount of long-term debt that it issues in order to protect against higher interest costs in the future. The presenting member cited past TBAC meetings where the Committee discussed the potential costs and benefits of increasing longer-dated debt issuance.

The presenting member noted that interest rates are low by historical standards. The presenting member also showed data related to Treasury’s current auction sizes and highlighted that issuance is skewed towards intermediate maturities. The member further added that the Weighted Average Maturity (WAM) of Treasury’s portfolio has increased in recent years, while the outstanding supply of bills has decreased.

The presenting member explained that Treasury’s borrowing costs are primarily driven by economic conditions and term premium, while secondary factors such as supply predictability, market liquidity, regulations, and the investor base for Treasury securities also play a role in determining issuance costs.

The member next discussed factors that influence the optimal maturity of Treasury debt, including factors such as the shape of the yield, term premium curve, and the correlation between tax receipts and interest rates. The member then presented a series of assumptions that were used in scenarios that simulated the cost of funds and WAM of Treasury debt over the next 30 years. The presenter highlighted that an issuance pattern that uniformly distributes auction sizes on a percentage basis could extend WAM by two years without significantly increasing funding costs. However, the member also noted that the insurance benefits of such a strategy appeared to be only marginal.

The member then reviewed charts that showed a strong relationship between interest expense and tax receipts, noting that the relationship between the growth in tax receipts and three month bill rates has typically been strong. The member also discussed multiple term premium charts and indicated that negative term premiums suggests that there may be a benefit to issuing intermediate term debt, while long term premiums currently reflect the low cost of protecting against higher future rates.

The Committee engaged in a brief discussion on the topic of issuing more long-dated debt with some arguing for the benefits of such issuance given low absolute interest costs, while other members noted that it may still be more costly than issuing short-term debt. Finally, some members noted that demand for short-term high quality assets supports the view for increased short-term issuance.

The Committee adjourned at 1:00 p.m. for lunch.

The Committee reconvened after lunch at 2:30 p.m. and briefly discussed the outlook for the next quarter. Some Committee members noted that a confluence of factors, including a potential increase in interest rates by the Federal Reserve and debt ceiling related considerations, may occur over the next few months and requires close monitoring.

The meeting adjourned at 4:00 p.m.

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

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

The Committee then reviewed the financing for the remainder of the July through September quarter and the October through December 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
August 4, 2015

Certified by:

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Dana Emery, Chairman
Treasury Borrowing Advisory Committee
Of The Securities Industry and Financial Markets Association
August 4, 2015

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Curtis Arledge, Vice Chairman
Treasury Borrowing Advisory Committee
Of The Securities Industry and Financial Markets Association
August 4, 2015

Treasury Borrowing Advisory Committee Quarterly Meeting
Committee Charge – August 4, 2015

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?

Regular and Predictable Issuance

A pillar of Treasury's debt management policy has been to operate in a "regular and predictable" manner. However, as a precise definition of "regular and predictable" has not been provided, the meaning of "regular and predictable" is subject to interpretation.

We would like the Committee to comment on the meaning of "regular and predictable" and its implication for debt managers' ability to alter auction sizes. At what point does the added flexibility of moving these auction sizes violate the Treasury's fundamental paradigm of "regular and predictable?"

Increasing Long-Term Issuance to Take Advantage of Low Interest Rates

Noting that long-term interest rates have declined to levels not seen since the 1960's, many observers have suggested Treasury issue more long-term debt relative to short-term debt in order to protect the government from the possibility of higher future interest rates.

We would like the Committee to comment on this consideration as part of Treasury's broader debt issuance strategy. Please elaborate on how this fits within Treasury's mandate to fund the government at the lowest cost over time and maintain a "regular and predictable" debt issuance schedule. What are the potential risks and benefits of incorporating this consideration in the debt-issuance strategy?

Financing this Quarter

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

- The composition of Treasury notes and bonds to refund approximately $67.2 billion of privately-held notes maturing on August 15, 2015.
- The composition of Treasury marketable financing for the remainder of the July-September 2015 quarter, including cash management bills.
- The composition of Treasury marketable financing for the October – December 2015 quarter, including cash management bills.

August 2015 TBAC Recommended Financing Table Q3 2015 and August 2015 TBAC Recommended Financing Table Q4 2015