Minutes of the Meeting of the Treasury Borrowing Advisory Committee of the Securities Industry and Financial Markets Association August 4, 2020

August 5, 2020

The Committee convened in a closed session via teleconference at 12:00 p.m. All members except Irene Tse were present. Principal Deputy Assistant Secretary for Financial Markets Kipp Kranbuhl, Deputy Assistant Secretary for Federal Finance Brian Smith, Director of the Office of Debt Management Fred Pietrangeli, and Deputy Director of the Office of Debt Management Nick Steele welcomed the Committee. Other members of Treasury staff present were Ayeh Bandeh-Ahmadi, Bobby Bishop, Chris Cameron, Dave Chung, David Copenhaver, Tammy Didier, Christine Graffunder, Tom Katzenbach, Chris Kubeluis, David Lebryk, Peter Phelan, Alex Redle, Brett Solimine, Renee Tang, and Brandon Taylor. Federal Reserve Bank of New York staff members Ellen Correia Golay, Oliver Giannotti, Kyle Lee, Susan McLaughlin, Rania Perry, and Lisa Stowe were also present.

Principal Deputy Assistant Secretary Kranbuhl opened the meeting by highlighting important developments since the last meeting, including the significantly increased issuance accomplished primarily through benchmark bills and a regular offering of cash management bills (CMBs), the successful launch of the 20-year bond, and the recently published Request for Information (RFI) related to a potential Treasury floating rate note (FRN) indexed to the Secured Overnight Financing Rate (SOFR).

Next, Kranbuhl discussed changes to the Committee membership, introducing the newest member, Colin Teichholtz. He also thanked outgoing member Dan Dufresne for his service to the Committee and his leadership as Vice Chair. Kranbuhl noted that Brian Sack will be the new Vice Chair.

Director Pietrangeli then discussed receipts and outlays through Q3 of FY2020. Receipts declined by $351 billion (13%) year-over-year, largely due to the extension of tax deadlines until July, while outlays increased by $1,648 billion (49%) year-over-year, largely driven by COVID-related spending including fiscal stimulus programs and automatic stabilizers. He noted that

the decline in receipts in the third fiscal quarter was mostly reversed at the July 15 tax date when Treasury received a large amount of deferred receipts.

Pietrangeli next highlighted that deficit and privately-held net marketable borrowing projections by the primary dealers, the Treasury's Office of Fiscal Projections, and the Congressional Budget Office remain elevated for FY2020. Primary dealer borrowing estimates varied based on assumptions regarding the cash balance and the pace of outflows under current programs as well as potential additional legislation. Pietrangeli noted that Treasury has assumed an additional $1 trillion for additional legislation in its estimates of borrowing needs over the next two quarters, but the realized amount will depend on the legislation ultimately enacted. The future trajectory of the COVID-19 outbreak and its economic effects create additional uncertainty going forward.

Regarding borrowing over the current quarter, Pietrangeli estimated that without a change in coupon auction sizes there would be an increase in net bill issuance of approximately $500 billion assuming privately-held net marketable borrowings of $947 billion and an end-of-September cash balance of $800 billion.

In response to questions from several Committee members regarding Treasury's elevated cash balance, Deputy Assistant Secretary Smith reiterated Treasury's risk management approach and noted the increased size and uncertainty around the timing of outflows. In light of this uncertainty, Treasury has taken a precautionary approach and assumed a rapid pace of outflows, in part to avoid abrupt changes to bill supply in the event that such rapid outflows occur.

Pietrangeli then continued by noting that the recent reduction of the weighted-average maturity of the debt outstanding has been driven by the notable increase in bill issuance since March. Overall, recent benchmark bill and CMB issuance has been well received, with stable bid-to-covers in line with recent averages. The market absorption of the increased bills issuance benefited from, among other things, a pickup in foreign demand for Treasury securities at auction, with foreign purchases of bills showing notable increases since March.

Smith then summarized primary dealer expectations for economic growth, monetary policy, and Treasury issuance in the coming months. Primary dealers provided a wide range of economic forecasts, which varied depending on views regarding the path of the COVID-19 outbreak and the extent of the fiscal response. Primary dealers largely expect the Federal Reserve to maintain an accommodative policy stance and to continue the current pace of Treasury purchases through 2021. To address increased borrowing needs, primary dealers

expect increases in coupon auction sizes across all nominal tenors, with a focus on longer-term securities, similar to the changes announced in the May quarterly refunding.

On specific tenors for nominal coupons, there was broad consensus among primary dealers that Treasury would increase the 2-, 3-, and 5-year notes each by $2 billion per month. Primary dealers were split between expecting monthly increases of $2 or $3 billion for the 7-year. The range of primary dealer expectations for auction sizes of long-end securities was much wider. The median primary dealer expected quarterly increases of $3 billion, $2 billion, and $3 billion for the 10-, 20-, and 30-year respectively, with increases applying to both new issues and reopenings. However, the range of primary dealer expectations included much larger increases, including $6 billion, $5 billion, and $4 billion quarterly increases to the 10-year, 20-year, and 30-year, respectively. Many dealers noted that the May increases were easily absorbed by the market and demand for longer-dated securities was both strong and broad.

Next, Debt Manager Solimine updated the Committee on the results of a recent RFI regarding potential Treasury issuance of a SOFR-indexed FRN. Solimine noted that the comments were broadly supportive of Treasury issuing a SOFR-indexed FRN with a 1-year maturity, with a preference for the use of daily compounding and quarterly coupon payments. Given a 1-year maturity, respondents argued that no changes would need to be made to the existing 2-year T-bill FRN. Additionally, most respondents preferred the use of a lookback and an observation period shift to most accurately account for non-business days in determining coupon payments, while arguing against the use of lockouts or payment delays. Lastly, respondents agreed that a SOFR-indexed FRN issued by Treasury would support the broader market transition away from USD LIBOR. Treasury has not made any decisions on issuance and continues to explore the potential benefits and design of such a security. The Committee briefly discussed the feedback from the RFI and broadly agreed that there are benefits for Treasury issuing a SOFR-indexed FRN to both support the transition away from USD LIBOR and provide an additional financing vehicle to Treasury.

Deputy Director Steele then reviewed responses from the primary dealers regarding potential technical adjustments to Treasury's auction schedule that could assist in increased coupon issuance. Primary dealers overwhelmingly stated that the current issuance schedule continues to function efficiently and that no changes are necessary at this time. In particular, they noted that holding multiple auctions per month for a given issue would likely result in an unnecessary overcrowding in the auction schedule. Primary dealers also commonly noted that monthly new issues in the long-end could lead to increased specialness in repo and adversely affect liquidity

in the market for Separate Trading of Registered Interest and Principal of Securities (STRIPS), due to the additional number of issues with lower float per issue. However, primary dealers counseled that, should issuance sizes grow substantially larger in the future, Treasury should continue to survey market participants on whether the frequency of offerings could be improved to ensure an efficient coupon auction schedule. Members of the Committee noted their agreement that the current coupon auction schedule is operating efficiently and that monthly issuance of longer-maturity securities is not desirable at this stage.

Next, Debt Manager Katzenbach reviewed primary dealer comments on recent CMB issuance. Primary dealers stated that Treasury's regular CMB offerings over the past few months have been very well received and generally priced at levels similar to Treasury's benchmark bill offerings. Primary dealers noted that Treasury is likely to continue issuing regular CMBs over the next few quarters and that the eventual elimination of CMBs in favor of only benchmark bills will take an extended period of time. Looking ahead, primary dealers encouraged Treasury to consider eventually making one or two of the regular CMB tenors into benchmark bills and found merits in each maturity point. However, most highlighted the 6-week bill for Thursday settlement and maturity, and either the 15- or 17-week bill for Tuesday settlement and maturity, as the preferred candidates.

The Committee then reviewed a presentation on the factors that Treasury should consider and potential approaches Treasury should evaluate in light of Treasury's stated intention to increase its long-term issuance as a prudent means of managing its maturity profile. The presenting member began by reviewing the historical factors influencing the level of government debt-to-GDP, and then analyzed term premia across the Treasury yield curve. In particular, the presenting member focused on the effects of the current monetary policy environment and uncertainty in future government financing needs.

The presenting member highlighted how the current environment changed the recommendations of the Committee's issuance model, in particular suggesting a greater reliance on intermediate-term nominal issuance (such as 7- and 10-year notes) than prior results (which focused on 2-, 3-, and 5-year notes), given a more attractive tradeoff between cost and risk when yields are in close proximity to the zero lower bound. While the model suggested focusing increased issuance in tenors out to 10-years, it was noted that greater levels of risk aversion by Treasury could justify increasing issuance further out the curve (such as 30-year bonds). Additionally, bill issuance remains an attractive avenue to address unexpected

financing needs given the recent expansion of bank reserves, inflows into money market mutual funds, and the likely persistence of high savings rates.

The Committee then turned to its financing recommendation for the upcoming quarters and recommended that Treasury continue to shift from the historic increase in bill issuance over the previous quarter to gradual increases in issuance of all fixed rate nominal coupon securities across all maturities, as well as increases to the 2-year FRN. The Committee discussed the optimal mix of increases and broadly agreed to recommend modestly larger increases in the 7- and 10-year, compared to other maturities. The Committee noted that the additional increase in supply announced in May was well received by market participants for several reasons, including strong demand for longer-dated issuance. It was also noted that financial conditions are expected to remain easy for some time, but at some point, conditions could tighten and supply effects could put upward pressure on rates. In addition, the Committee recommended mostly maintaining TIPS issue sizes for the current quarter, but noted the potential for a modest increase in the 5-year TIPS in October, based on the healthy market reception since its launch last year.

The Committee adjourned at 3:45 p.m.

The Committee reconvened at 5:00 p.m. The Chair summarized key elements of the Committee report for Deputy Secretary Muzinich, and followed with a brief discussion of recent market developments.

The Committee adjourned at 5:30 p.m.

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Brian Smith

Deputy Assistant Secretary for Federal Finance

United States Department of the Treasury

August 4, 2020

Certified by:

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Elizabeth Hammack, Chair

Treasury Borrowing Advisory Committee

Of The Securities Industry and Financial Markets Association

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TREASURY BORROWING ADVISORY COMMITTEE QUARTERLY MEETING

COMMITTEE CHARGE – AUGUST 4, 2020

Fiscal Outlook

Taking into consideration Treasury's short, intermediate, and long-term financing requirements, as well as the variability in financing needs from quarter to quarter, what changes to Treasury's coupon auctions do you recommend at this time, if any? Please also provide feedback on market expectations for Treasury issuance, the effects of current SOMA reinvestment policy, the evolution of Treasury holdings by investor class, as well as auction calendar construction.

Treasury Debt Composition and Maturity Profile

While Treasury met the immediate financing needs related to the COVID-19 outbreak primarily through increased bill issuance, Treasury has begun shifting financing from bills toward longer-dated tenors in order to manage its maturity profile (as announced in the May Quarterly Refunding Statement). Please discuss the factors that Treasury should consider and potential approaches Treasury should evaluate as it works to manage its maturity profile.

Financing this Quarter

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

- The composition of Treasury notes and bonds to refund approximately $49.5 billion of privately-held notes and bonds maturing on August 15, 2020.
- The composition of Treasury marketable financing for the remainder of the July-September 2020 quarter, including cash management bills.
- The composition of Treasury marketable financing for the October-December 2020 quarter, including cash management bills.