Minutes of the Meeting of the Treasury Borrowing Advisory Committee August 3, 2021

August 4, 2021

The Committee convened in a closed session via teleconference at 10:40 a.m. All members were present. Under Secretary for Domestic Finance Nellie Liang, Fiscal Assistant Secretary David Lebryk, 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 Bobby Bishop, Chris Cameron, Dave Chung, David Copenhaver, Tammy Didier, Joshua Frost, Christine Graffunder, Tom Katzenbach, Chris Kubeluis, Kyle Lee, Brett Solimine, Renee Tang, Brandon Taylor, and Tom Vannoy. Federal Reserve Bank of New York staff members Kathryn Chen, Kathryn Franklin, Oliver Giannotti, Dina Marchioni, Rania Perry, and Monica Scheid were also present.

Under Secretary Liang opened the meeting and emphasized the importance of the Committee's continued work in providing advice to the Treasury on debt management.

Director Pietrangeli then provided brief highlights of changes in receipts and outlays fiscal-year-to-date. Receipts increased by $796 billion (35%) compared to the same period last year. When comparing July 2020 fiscal-year-to-date to June 2021 fiscal-year-to-date to account for the deferral of taxes in 2020 to July, corporate taxes were still 50% higher and non-withheld taxes were 32% higher. Outlays increased by $290 billion (6%), driven primarily by higher Economic Impact Payments and other expenditures related to the fiscal response to the pandemic. Pietrangeli noted that Treasury's Office of Fiscal Projections estimates privately-held net marketable borrowing of $673 billion and $703 billion over the next two quarters, assuming a cash balance of $750 billion at the end of September and $800 billion at the end of December. Pietrangeli noted that the September and December cash balances assume enactment of a debt limit suspension or increase.

Pietrangeli then turned to deficit and privately-held net marketable borrowing projections for the next few fiscal years, including estimates from the primary dealers, the Congressional Budget Office (CBO), and the Office of Management and Budget (OMB), noting that the various projections differ in their assumptions for future additional fiscal spending and in estimates of Treasury's cash balance. Many primary dealers expressed the view that additional fiscal packages are expected to increase financing needs, but by a lower amount than previously anticipated, with spending spread out over several years. They also highlighted that uncertainty around financing needs remains high, resulting in a wide range of estimated borrowing needs for FY2022 and FY2023. While Treasury appears well-financed for the remainder of FY2021, projections from the primary dealers, CBO, and OMB all suggest Treasury will be substantially over-financed over the next several fiscal years if current issuance sizes are held constant.

Next, Deputy Director Steele summarized primary dealers' outlooks for Treasury auction sizes over the remainder of CY2021 and CY2022. Consistent with the forecasts that Treasury will be over-financed, all primary dealers expected reductions in coupon auction sizes by the end of CY2022. The timing and sizes of the expected reductions varied given individual assessments of fiscal and economic uncertainty as well as the effect on the share of Treasury bills relative to total marketable debt outstanding. Most primary dealers anticipated that Treasury would begin reducing auction sizes at the November quarterly refunding. Additionally, a majority of primary dealers anticipated that monthly reductions would be applied across the nominal coupon curve, while some expected slightly larger cuts to the 7-year note and the 20-year bond given their large relative increases in auction sizes during 2020. Regarding TIPS issuance, a majority of primary dealers expected that Treasury would continue with modest increases in auction sizes through the end of CY2021 and that TIPS auction sizes would remain unchanged through CY2022, though some suggested that TIPS auction sizes could be further increased next year if demand remains robust.

The Committee then reviewed a presentation about potential adjustments to coupon auction sizes in the coming years based on the presenting member's assessment that the current auction schedule will likely leave Treasury significantly overfunded. Several significant financing uncertainties were also highlighted by the presenting member that will require a flexible approach within the regular and predictable paradigm. The resulting share of bills outstanding, the impact on the maturity profile, and the relative persistent supply and demand dynamics at each maturity point were then discussed for each issuance size scenario. The presenting member concluded by recommending that Treasury begin to move towards a scenario with issuance cuts across the nominal curve, but with relatively larger reductions in the 7-year and 20-year tenors, offset by smaller reductions to the 5-year, 10-year, and 30-year tenors.

The Committee then turned to its financing recommendation for the upcoming quarters. The Committee recommended that Treasury begin to reduce nominal coupon auction sizes at the November 2021 quarterly refunding and attempt to target a bill share of total marketable debt outstanding within the Committee's past recommendation of 15 to 20 percent. However, the Committee emphasized the current level of fiscal uncertainty and the need to remain flexible if borrowing needs were to change materially. After a discussion, the Committee further recommended that Treasury proceed in November with modestly larger reductions in the 7-year note and 20-year bond. Finally, the Committee recommended that Treasury continue to increase TIPS auction sizes at a pace consistent with the increase in gross issuance for CY2021 that was announced at the November 2020 quarterly refunding. The Committee also reaffirmed its support for Treasury to issue a floating rate note indexed to the Secured Overnight Financing Rate.

The Committee adjourned at 1:10 p.m.

The Committee reconvened at 2:30 p.m. The Chair summarized key elements of the Committee report for Secretary Yellen and followed with a brief discussion of recent market developments.

The Committee adjourned at 3:15 p.m.

The Committee reconvened at 3:40 p.m. The Committee reviewed a presentation on regulatory reform options for the money market mutual fund (MMF) industry, given the stress experienced by certain types of funds during March 2020. The presenting member began by noting the vulnerabilities that exist for prime MMFs, highlighting common themes in several recent episodes of heightened outflows. During these events, the outflows from prime MMFs have tended to result in similarly sized and simultaneous inflows into government MMFs. In the face of heightened investor redemptions, prime MMFs tend to show reluctance to sell liquid assets, such as Treasury securities, to guard against breaching regulatory liquidity thresholds that are tied to MMFs' ability to impose fees and gates on redemptions. These episodes increase demand for Treasury bills, as the bill share of government MMF portfolios is much larger than that of prime MMF portfolios. Relatedly, reforms that would result in a smaller prime MMF sector would likely result in higher structural demand for Treasury securities.

The presenting member concluded by arguing that optimal reforms to address the vulnerabilities among prime MMFs should balance allowing these funds to offer attractive yields under normal market conditions while ensuring stability during periods of market stress. In this vein, the presenting member argued that reforms should include removing the ties between MMFs liquidity mandates and redemption fees and gates, mandating that prime MMFs hold a higher degree of liquid assets, and using floating net asset values for all non-government MMFs to set clearer expectations of risks to MMF investors.

The Committee adjourned at 4:40 p.m.

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Brian Smith

Deputy Assistant Secretary for Federal Finance

United States Department of the Treasury

August 3, 2021

Certified by:

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Elizabeth Hammack, Chair

Treasury Borrowing Advisory Committee

August 3, 2021

TREASURY BORROWING ADVISORY COMMITTEE QUARTERLY MEETING

COMMITTEE CHARGE – AUGUST 3, 2021

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, if any, do you recommend to Treasury issuance? Please also provide perspectives regarding market expectations for Treasury issuance, the effects of SOMA investments, the evolution of Treasury holdings by different types of investors, as well as auction calendar construction.

Money Market Fund Reform

A recent President's Working Group on Financial Markets report on money market fund reform described ten potential regulatory options to improve the resilience of money market funds and broader short-term funding markets given the events of March 2020. Please discuss the impacts that these or other reform proposals would have on the money market mutual fund industry, with a focus on the expected impacts on the Treasury market.

Coupon Issuance Adjustments

Given your borrowing forecasts for the next two fiscal years, please comment on how Treasury should consider adjustments to coupon issuance sizes in the coming quarters. When should Treasury consider making adjustments to nominal coupon auction sizes, and how should these adjustments be allocated across the curve?

Financing this Quarter

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

- The composition of Treasury notes and bonds to refund approximately $58.6 billion of privately-held notes and bonds maturing on August 15, 2021.
- The composition of Treasury marketable financing for the remainder of the July-September 2021 quarter.
- The composition of Treasury marketable financing for the October-December 2021 quarter.