U.S. DEPARTMENT OF THE TREASURY

Minutes of the Meeting of the Treasury Borrowing Advisory Committee January 31, 2023

February 1, 2023

The Committee convened in a closed session at the Department of the Treasury at 9:30 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 Dini Ajmani, Sally Au-Yeung, Chris Cameron, Dave Chung, Gabriella Csepe, Tom Katzenbach, Chris Kubeluis, Kyle Lee, Jeff Rapp, Renee Tang, Brandon Taylor, and Thomas Teles. Federal Reserve Bank of New York staff members Johnny Elliot, Susan McLaughlin, Rania Perry, and Nathaniel Wuerffel were also present.

Under Secretary Liang opened the meeting by thanking Bob Miller for his service on the Committee and briefly outlining recent efforts related to strengthening Treasury market resilience and other priorities. Following her remarks, Treasury counsel presented the annual review of Committee guidelines.

Director Pietrangeli provided brief highlights of changes in receipts and outlays through Q1 FY2023. Receipts totaled $1.026 trillion, a decline of $26 billion (-3%) compared to the same period last year as economic growth has slowed in response to the Federal Reserve's efforts to reduce inflation through the tightening of financial conditions. Outlays totaled $1.447 trillion, an increase of $17 billion (1%) compared to the same period last year, reflecting modest increases in expenditures across several key categories.

Pietrangeli then turned to deficit and privately-held marketable borrowing projections. Primary dealer estimates were generally higher compared to last quarter. Specifically, their cumulative privately-held net marketable borrowing estimates through FY2025 increased by $300 billion relative to their estimates at the November 2022 refunding. Primary dealers noted that their current borrowing estimates were higher due to the effects of a slower economy on tax receipts and higher expected interest costs. However, they emphasized their low level of conviction with their borrowing outlooks given significant uncertainty about the

economic outlook and System Open Market Account (SOMA) redemptions of Treasury securities.

Debt Manager Lee then discussed primary dealers' expectations for Treasury issuance. Primary dealers broadly expected Treasury to keep nominal coupon auction sizes unchanged this quarter. They noted that because the bill share of total debt outstanding remained near the bottom of the Committee's recommended range of 15 to 20 percent, Treasury was well-positioned to meet near-term borrowing needs with additional bill supply. They anticipated that Treasury eventually would need to consider increasing nominal coupon issuance, but the timing would depend on how the borrowing outlook evolved.

Lee then noted that there was also a consensus among the primary dealers for Treasury to keep TIPS auction sizes unchanged this quarter. They cited several measures suggesting a potential slowdown in the robust TIPS demand experienced over the last few years and thought it prudent for Treasury to pause gradual increases this quarter and evaluate how demand might evolve going forward. However, several suggested that it would be important for Treasury to consider increasing TIPS auction sizes in the future if nominal coupon auction sizes were increased in order to maintain a stable TIPS share as a percentage of total debt outstanding.

Debt Manager Taylor then reviewed primary dealers' views on Treasury's proposed policy to publicly release secondary market transaction data for on-the-run nominal coupons, at the end of the day and with appropriately sized caps for large transactions. Primary dealers were broadly supportive of the proposal and Treasury's gradual approach to providing additional transparency. They noted that there were limited risks to releasing on-the-run transactions, but stressed it was important to carefully evaluate the effects of this proposal on Treasury market liquidity before considering steps towards additional transparency. Regarding cap sizes for end-of-day release, primary dealer views differed on whether large transactions would result in any market impact and on whether it would be appropriate to begin with smaller initial caps and periodically re-assess. Considerations for establishing cap sizes included the different risk and liquidity characteristics among tenors, as well as changes in the liquidity environment. Feedback also included identification of packaged transactions given the potential price implications.

Taylor also discussed feedback regarding the potential to transition to 60-minute dissemination of transaction data. Some primary dealers supported initially moving toward 60 minutes, while others suggested it would be beneficial to begin with end-of-day release

and assess before moving to 60 minutes. However, a majority indicated that if release of data were shortened to 60 minutes, then cap sizes would likely need to be smaller.

The Committee briefly discussed the proposal, acknowledging the various considerations noted by primary dealers when evaluating caps for specific tenors. The Committee highlighted that the identification of packaged transactions, while providing greater clarity on pricing, could also provide indirect information about off-the-runs to the extent that these transactions involved both an on-the-run and an off-the-run.

Debt Manager Katzenbach then reviewed primary dealers' views on changing the monthly new issue auction schedule for 2-, 3-, 5-, and 7-year nominal coupon benchmarks to one new issue and two reopening auctions per quarter. This would be similar to the approach used for 10-, 20-, and 30-year nominal coupon benchmarks, but with new issues potentially staggered across the quarter. Dealers expressed mixed opinions on whether these potential changes would meaningfully improve Treasury market liquidity, but many thought the concept warranted further study. Several dealers noted that larger issue sizes could reduce specialness in the repo market and fewer CUSIPs could create more balance sheet efficiencies for intermediaries. In contrast, some dealers noted concerns, including the larger roll between quarterly issues as compared to the existing monthly cycle, which could be difficult to intermediate. In addition, dealers highlighted that certain investors valued the monthly cycle, which allowed for greater precision when targeting investments in certain tenors, particularly for shorter maturities. Katzenbach noted that, under a staggered new issue approach, there would still be at least one security maturing each month, but some of these would be off-the-run 5- and 7-year notes that might be relatively less liquid than their new issue counterparts. Committee members expressed interest in this potential change to the auction schedule and suggested further study would be beneficial.

The Committee then presented on considerations for designing a regular and predictable Treasury buyback program. The presenting member began by proposing a series of guiding principles for buybacks, noting that buybacks should be used mainly for liquidity support and cash management purposes, but are not intended to mitigate episodes of acute market stress. The presentation then reviewed potential use cases, discussed a framework to size buyback operations, and ended with several considerations for structuring a buyback program. The presenting member concluded that Treasury buybacks should result in both direct and indirect benefits for the taxpayer, with the indirect benefits potentially outweighing the direct benefits. The presenting member emphasized that designing and

executing a buyback program would be highly complex and would require Treasury to conduct additional analysis.

The Committee then discussed the presentation with respect to potential operational design. It was noted that Treasury could announce buyback amounts within the context of quarterly refundings, but there was debate about the importance for Treasury to retain flexibility regarding buyback operations, such as times when the market did not require the liquidity support. Committee members generally agreed that flexibility could be achieved in a manner consistent with Treasury's regular and predictable issuance framework.

Finally, the Committee discussed its financing recommendation for the upcoming quarters. The Committee recommended that Treasury maintain nominal coupon auction sizes at current levels and noted that there is ample scope to increase bill supply. The Committee noted that, in future quarters, it may be appropriate to consider increases to nominal coupon auction sizes in order to maintain the bills share of total debt within the Committee's recommended range of 15 to 20 percent. However, it was important to monitor how borrowing needs would evolve, given significant uncertainty related to the economic outlook and SOMA redemptions. Finally, the Committee briefly discussed the capacity to increase TIPS issuance, and recommended modest increases focused in the 5-year tenor in order to further support the TIPS share as a percentage of total debt outstanding.

The Committee adjourned at 3:00 p.m.

The Committee reconvened at 5:00 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 5:30 p.m.

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Brian Smith

Deputy Assistant Secretary for Federal Finance

United States Department of the Treasury

January 31, 2023

Certified by:

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Beth Hammack, Chair

Treasury Borrowing Advisory Committee

January 31, 2023

TREASURY BORROWING ADVISORY COMMITTEE QUARTERLY MEETING

COMMITTEE CHARGE – JANUARY 31, 2023

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 changes in SOMA holdings, the evolution of Treasury holdings by different types of investors, as well as auction calendar construction.

Treasury Buybacks

Treasury continues to gather information regarding possible use cases and considerations for designing a potential buyback program. Most feedback to date has suggested that if Treasury were to consider a buyback program that it should be conducted in a regular and predictable manner, be used for liquidity support and cash management, and be neutral to the maturity structure of marketable debt outstanding.

Please discuss in more detail how Treasury could design a regular and predictable buyback program that could provide liquidity support as well as improve cash management. In your discussion, please outline the factors or indicators Treasury should consider when determining which Treasury securities to buy back. In addition, are there certain liquidity metrics that Treasury could monitor to consider whether buybacks are helping support

liquidity? From a cash management perspective, what metrics could be used to measure the benefits? How should Treasury monitor whether buybacks are reducing costs for the taxpayer over time?

Financing this Quarter

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

- The composition of Treasury notes and bonds to refund approximately $67.1 billion of privately-held notes and bonds maturing on February 15, 2023.
- The composition of Treasury marketable financing for the remainder of the January-March 2023 quarter.
- The composition of Treasury marketable financing for the April-June 2023 quarter.