Minutes of the Meeting of the Treasury Borrowing Advisory Committee April 30, 2024

May 1, 2024

The Committee convened in a closed session at the Department of the Treasury at 9:00 a.m. All members were present. Jason Williams from Citigroup was also present to assist the Committee Chair. Under Secretary for Domestic Finance Nellie Liang, Fiscal Assistant Secretary David Lebryk, Assistant Secretary for Financial Markets Josh Frost, 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 Tom Katzenbach welcomed the Committee. Other members of Treasury staff present were Dini Ajmani, Sally Au-Yeung, Shantanu Banerjee, Burcu Duygan Bump, Chris Cameron, Nicholas Chisholm, Dave Chung, Gabriella Csepe, Jeff Rapp, Renee Tang, Thomas Teles, and Laura Thrift. Federal Reserve Bank of New York staff members Ellen Correia Golay, Luis Gonzalez, and Kyle Watson were also present.

Under Secretary Liang opened the meeting by thanking outgoing Vice Chair Colin Teichholtz for his service to the committee. Under Secretary Liang then provided a brief update on debt management and other Treasury priorities.

Director Pietrangeli reviewed year-over-year changes in receipts and outlays through Q2 FY2024. Receipts totaled $1.1 trillion during the first six months of FY2024, an increase of $140 billion (7%) compared to the same period last year. This increase was primarily due to several major tax deadline extensions for some taxpayers, including those in California, from FY2023 into FY2024. Outlays totaled $1.6 trillion through Q2 FY2024, an increase of $103 billion (3%) compared to the same period last year, which was largely attributable to higher gross interest on the public debt as well as cost-of-living adjustments to Social Security and other transfer payments.

Pietrangeli then turned to privately-held net marketable borrowing projections. Primary dealer estimates for the next three fiscal years were slightly lower than previous estimates, with the median cumulative estimate for FY2024-FY2026 approximately $178 billion lower than last quarter. Dealers noted that their level of confidence around these estimates, particularly in FY2025 and FY2026, was low, citing uncertainty around the path of monetary policy, the duration of System Open Market Account (SOMA) redemptions, and the economic outlook.

Deputy Director Katzenbach reviewed primary dealers' expectations for coupon issuance. All primary dealers expected nominal coupon issuance to remain unchanged at the May refunding. In addition, dealers generally projected that nominal coupon auction sizes would remain unchanged through calendar year-end, but that modest increases might be needed sometime in mid-2025 or 2026. The timing of any forthcoming change to auction sizes was perceived to be uncertain, as it would depend upon the evolving outlook for the economy, the pace and duration of SOMA balance sheet reduction, and whether any provisions of the Tax Cuts and Jobs Act were extended past their scheduled expiry. With respect to Treasury Inflation-Protected Securities (TIPS), all dealers expected Treasury to increase the size of the 5-year TIPS reopening in June 2024 and most expected Treasury to increase the 10-year TIPS new issue in July.

Debt Manager Banerjee summarized primary dealers' views on the size and composition of the SOMA portfolio over the next 12-24 months given the implications for Treasury issuance. With respect to SOMA redemptions, many dealers expected the Federal Reserve would announce a reduction to the pace of tapering at the May 2024 meeting of the Federal Open Market Committee. As to timing, dealers' modal expectation was that the pace of redemptions would be tapered beginning in June 2024 and that the overall size of the SOMA portfolio would stabilize by the second quarter of 2025. With respect to composition, most dealers expected the Federal Reserve to reduce the caps on Treasury redemptions by half while nearly all dealers expected mortgage-backed security (MBS) caps to remain unchanged. Most dealers also expressed the view that, in the medium- to longer-term, there is potential for a compositional shift in the maturity of SOMA reinvestments: as MBS holdings continue to roll off the Federal Reserve's balance sheet, secondary market purchases of Treasuries might skew towards shorter-dated securities.

Debt Manager Chisholm then reviewed primary dealers' views on the small-value buyback operations conducted by Treasury in April 2024. Dealers noted no issues participating in the operations, attributing this to their familiarity with the FedTrade platform and expressing no concerns about the Wednesday afternoon time slot. Dealers suggested that Treasury provide additional transparency regarding the criteria for including securities in each operation while also remaining flexible and price-sensitive when conducting buyback operations.

Chisholm then reviewed Treasury's latest operational design parameters of the regular buyback program. Treasury will conduct liquidity support and cash management buybacks in 9 buckets based on seven maturity sectors across the curve for nominal coupon securities and two for TIPS. Chisholm noted that Treasury will announce a tentative schedule for the subsequent quarter at each quarterly refunding, that liquidity support buybacks will generally take place once per week, and that operations will initially be open only to primary dealers. Chisholm highlighted that unlike auctions, pro-rata participation in Treasury buybacks is not part of the expectations for primary dealers. Chisholm noted that initially, Treasury will seek offers for at most 20 CUSIPs in each operation due to temporary settlement reporting process limitations that are being addressed and that Treasury would provide an update both on operation sizes and the 20 CUSIP limit at the August 2024 refunding.

The Committee then discussed the potential for a 6-week benchmark. The presenting member began by reviewing factors Treasury should take into consideration when making its determination and surveyed the sources of investor demand for the tenor, particularly that of money market funds. The presenting member highlighted the projected growth in bill issuance over the longer term, strong demand for the tenor during the time Treasury has issued it as a cash management bill, and the complementary nature of the 6-week bill issuance and maturity pattern to the existing suite of Treasury bills. The Committee concluded by recommending Treasury move the 6-week tenor to benchmark status.

The Committee then turned to a presentation on potential new Treasury products that may help Treasury achieve its objectives such as minimizing borrowing costs or expanding its investor base. The presenting members surveyed a variety of potential products ranging from previously issued instruments like callable bonds, novel products never issued by the U.S. Treasury before like green bonds, and variations of existing instruments. The Committee began the discussion on these potential products before adjourning for lunch.

The Committee adjourned at 12:00 p.m.

The Committee reconvened at 1:10 p.m.

Upon reconvening the presenting members finished discussing new potential products and then also reviewed potential new operational processes to better achieve Treasury's objectives – such as diversifying settlement days or times, reopening operations, introducing a securities lending facility, or publishing "league tables." The presenting members recommended Treasury could consider further study of several new products and processes.

It was emphasized that any of these potential ideas would require additional review and analysis before the Committee would be prepared to make a recommendation.

The Committee then discussed its financing recommendation for the upcoming quarters and advised that Treasury maintain nominal coupon and floating rate note auction sizes at current levels. Finally, the Committee recommended gradual increases to TIPS auction sizes.

The Committee adjourned at 2:30 p.m.

The Committee reconvened at 5:00 p.m.

Finally, 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 5:20 p.m.

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Brian Smith

Deputy Assistant Secretary for Federal Finance

United States Department of the Treasury

April 30, 2024

Certified by:

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Deirdre Dunn, Chair

Treasury Borrowing Advisory Committee

April 30, 2024

TREASURY BORROWING ADVISORY COMMITTEE QUARTERLY MEETING

COMMITTEE CHARGE – APRIL 30, 2024

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.

6-Week Benchmark

Treasury has regularly been issuing the 6-week cash management bill since June 2023 and last refunding stated it would announce a decision on whether to change the 6-week to benchmark status at an upcoming refunding. Based on your recommendations for the appropriate level of bills outstanding in the medium to long term, should Treasury change the 6-week to benchmark status? What factors should Treasury consider before making a decision on the 6-week?

New Products and Processes

Treasury is always considering ways to minimize borrowing costs, better manage its liability profile, enhance market liquidity, and expand the investor base in Treasury securities. In light of these objectives, we would like the Committee to comment on the likely costs and benefits of potential new Treasury products that might assist Treasury in achieving some or all of these objectives. In addition, are there any other debt management tools or processes that Treasury should consider utilizing? In answering the question, please review the practices and products employed by debt management authorities around the world.

Financing this Quarter

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

- The composition of Treasury notes and bonds to refund approximately $107.8 billion of privately-held notes maturing on May 15, 2024.
- The composition of Treasury marketable financing for the remainder of the April-June 2024 quarter
- The composition of Treasury marketable financing for the July-September 2024 quarter.