Minutes of the Meeting of the Treasury Borrowing Advisory Committee October 29, 2024

October 30, 2024

The Committee convened in a closed session at the Department of the Treasury at 9:00 a.m. All members were present. Heather Masciotti 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, Nahiomy Alvarez, Burcu Duygan Bump, Chris Cameron, Nicholas Chisholm, Dave Chung, Gabriella Csepe, Chris Kubeluis, Jeff Rapp, Andrew Schwartz, Joshua Stachura, Renee Tang, Thomas Teles, Laura Thrift, John Tuttle, and Chris Varvares. Federal Reserve Bank of New York staff members Ellen Correia Golay, Oliver Giannotti, and Kyle Watson were also present.

Director Pietrangeli reviewed receipts and outlays during FY2024. Receipts totaled $4.92 trillion, which represents an increase of $479 billion (11%) year-over-year. This increase was due to higher non-withheld and corporate taxes following an extension of several federal tax deadlines from FY2023 into FY2024, the new Corporate Alternative Minimum Tax (CAMT), and growth in wages and employment. Outlays totaled $6.75 trillion, an increase of $617 billion (10%) year-over-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 two fiscal years were marginally higher than previous estimates, with the median aggregate estimate for FY2025-FY2026 approximately $128 billion higher than last quarter. Dealers voiced uncertainty regarding borrowing needs in FY2025 and FY2026, citing the path of monetary and fiscal policy, the duration of System Open Market Account (SOMA) redemptions, and the economic outlook.

Deputy Director Katzenbach reviewed primary dealers' expectations for coupon issuance, which had not significantly changed since July. All primary dealers expected nominal coupon issuance to remain unchanged at the November refunding. Looking ahead, most continued to think that modest increases might be needed sometime between late-2025 and 2026. However, several dealers cited uncertainty about borrowing needs and the expiration of the current debt limit suspension at the beginning of 2025 as possible complicating factors.

Debt Manager Stachura summarized primary dealers' views on current TIPS market conditions and whether Treasury should increase TIPS issuance in CY2025. Although several dealers commented that demand for TIPS, especially from retail investors, had weakened with the reduction in inflation, nearly all primary dealers felt that the market could absorb additional supply. Dealers overwhelmingly recommended that any increases to existing benchmark tenors should occur in the 5-year or 10-year tenors, and emphasized the importance of increasing sizes gradually. Most dealers seemed open to the prospect of a new TIPS benchmark in the short end of the curve while noting questions regarding potential auction scheduling in light of the current monthly auction cycle.

Under Secretary Liang welcomed Joe Demetrick, Sara Devereux, Greg Peters, and Scott Rofey as the newest members of the Committee. Liang then provided a brief update on debt management and other Treasury priorities.

Debt Manager Chisholm then reviewed the results of recent Treasury buybacks. Since the launch of the program in May, Treasury has purchased more than $50 billion of securities across 25 operations. While Treasury purchased the maximum par amount of $5 billion in each of the four cash management buybacks, Chisholm noted that Treasury only purchased the maximum amount in 11 of the 21 liquidity support buybacks. Chisholm explained that purchasing less than the maximum amount was consistent with Treasury's price-sensitive approach for evaluating offers.

Chisholm subsequently reviewed primary dealers' views on Treasury's recent cash management buybacks. Chisholm noted that dealers' feedback was generally positive and focused on the results and metrics that Treasury publishes after each operation. Dealers suggested that cash management buybacks helped to dampen volatility in both Treasury's cash balance and Treasury bill auction sizes but cautioned that the modest initial size of cash management buybacks limited their effect. Dealers also stated that Treasury's cash management purchases were supportive of liquidity in the one-month to two-year nominal coupons sector and provided similarly constructive feedback on the liquidity support buybacks that Treasury conducted during the latest refunding quarter. Finally, dealers expect Treasury to conduct another round of cash management buybacks in December 2024 and April 2025 during periods of high fiscal inflows and suggested that there is market capacity to increase the size of cash management buybacks.

The Committee then discussed the first charge addressing the efforts of the Inter-Agency Working Group on Treasury Market Surveillance (IAWG) to enhance Treasury market resilience. The presenting member pointed to several positive indicators, including: robust Treasury market liquidity, smooth market functioning through the regional banking crisis in 2023, the availability of funding liquidity for leveraged investors, improvements across Treasury market liquidity metrics, and greater availability of public data to strengthen investor confidence and improve transparency. However, the presenting member also noted limited growth in dealer intermediation capacity relative to issuance, slowing demand for Treasuries from some categories of investors, and the growing role of principal trading firms in market intermediation. Finally, the presenting member proposed additional initiatives for consideration, such as central clearing of the Federal Reserve's Standing Repo Facility, exemption of Treasuries from the supplementary leverage ratio, and greater focus in stress testing on the risks generated by month-end spikes in trading volume. Several features of the Treasury market were discussed by attendees during the presentation, including: the use of futures versus cash Treasuries by asset managers, the role of Treasury securities in bank portfolios, as well as the evolution and implications of passive index investing.

The Committee adjourned at 11:50 a.m. for lunch.

The Committee reconvened at 1:20 p.m.

Upon reconvening, the Committee turned to a presentation on digital assets and the Treasury market. The presenting member began by discussing the reasons for, and impact of, the rapid growth in cryptocurrency market capitalization over the past several years. The presenting member observed that because most stablecoin collateral reportedly consists of either Treasury bills or Treasury-backed repurchase agreement transactions, the growth in stablecoins has likely resulted in a modest increase in demand for short-dated Treasury securities.

Subsequently, the presenting member reviewed both ongoing and proposed efforts related to the tokenization of Treasuries. Broadly speaking, tokenization attempts to represent ownership of a Treasury security using blockchain or distributed ledger technology. The Committee then engaged in a discussion of the costs and benefits of tokenization of

Treasuries. On the one hand, tokenization could lead both to operational improvements and to innovation in the Treasury market. On the other hand, tokenization presents possible technological, operational, regulatory, and financial stability risks. In view of these risks, the presenting member argued that tokenization in the Treasury market would likely require the development of a privately controlled and permissioned blockchain managed by a trusted government authority. The presenting member concluded by observing that, in spite of potential risks, the growth in digital assets over the past several years currently has only marginal implications for both Treasury issuance and the health of the Treasury market.

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

The Committee adjourned at 2:50 p.m.

The Committee reconvened at 3:00 p.m.

Finally, the Chair summarized key elements of the Committee report for Deputy Secretary Adeyemo and followed with a brief discussion of recent market developments.

The Committee adjourned at 3:35 p.m.

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Brian Smith

Deputy Assistant Secretary for Federal Finance

United States Department of the Treasury

October 29, 2024

Certified by:

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Deirdre Dunn, Chair

Treasury Borrowing Advisory Committee

October 29, 2024

TREASURY BORROWING ADVISORY COMMITTEE QUARTERLY MEETING

COMMITTEE CHARGE – OCTOBER 29, 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.

Treasury Market Resilience

Since 2021, the Inter-Agency Working Group on Treasury Market Surveillance (IAWG) has been conducting an extensive program of analysis and policymaking to enhance Treasury market resilience. The IAWG has organized around five workstreams and issued four annual reports highlighting its progress (2024 PDF, 2023 PDF, 2022 PDF, 2021 PDF). Please comment on the effectiveness of the IAWG efforts to date. To what extent will the policies that have been or are being implemented improve Treasury market resilience? In which areas are additional policy changes needed? Please elaborate.

Digital Assets and the Treasury Market

Please comment on the effects of the growth in digital assets on the Treasury market. Please summarize existing efforts at using blockchain technology or tokenization for Treasury market related applications. How might blockchain technology be used to innovate or improve on Treasury market operations? What are the potential benefits and costs of tokenization of Treasuries? What effects might these trends have on recommended Treasury issuance or the health of the Treasury secondary market?

Financing this Quarter

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

- The composition of Treasury notes and bonds to refund approximately $116.4 billion of privately-held notes maturing on November 15, 2024.
- The composition of Treasury marketable financing for the remainder of the October-December 2024 quarter.
- The composition of Treasury marketable financing for the January-March 2025 quarter.