

MINUTES OF THE MEETING OF THE
PSA TREASURY BORROWING ADVISORY COMMITTEE
APRIL 28 AND 29, 1992

April 28

The Committee convened at 9:00 a.m. at the Treasury Department. All members were present, except Mr. Corzine and Mr. Michaelcheck (see the attached list).

I gave the Committee an informational background briefing updating Treasury borrowing estimates and historical information relevant to the May mid-quarter refunding. The borrowing estimates and background information had been released to the public on April 27, 1992.

The Committee also received a briefing by a Treasury staff member on current economic conditions, which was followed by a question-and-answer period. Deputy Assistant Secretary (Federal Finance) Danker then "charged" the Committee to make recommendations on the May Treasury refunding and related matters (see the attached Charge). The meeting adjourned at 10:40 a.m.

The Committee reconvened at 2:30 p.m. at the Madison Hotel; all members were present, except Mr. Corzine and Mr. Michaelcheck. The discussion began with the total size of the May refunding. The Committee voted unanimously to recommend a \$37 billion total refunding and a reopening of the 8 percent Treasury bond of November 15, 2021. The reopening was recommended to ensure the trading liquidity of the bond and to reduce the possibility of a market shortage of that issue.

May refunding

The Committee voted 12 to 4 to recommend that the following securities be offered in the May refunding: \$15-1/2 billion of 3-year notes; \$11-1/4 billion of 10-year notes; and \$10-1/4 billion reopening of the 8 percent bond. The 4 noes preferred concentrating more of the refunding in the 10-year and 29 1/2-year issues.

For the remainder of the April-June quarter and the July-September quarter, the Committee consensus favored gradually increasing the sizes of existing issues, with the possible result that the end-of-June cash balance would approach \$40 billion. A cash management bill in May or June, to mature before the end of June, was also recommended by consensus. The Committee noted that the Treasury could expand the size of the 52-week bills (sold every four weeks) by a significant amount. Committee briefly discussed the potential need to add a new issue cycle to deal with financing needs after September, but made no specific

recommendation. The Committee consensus was that a \$30 billion cash balance would be acceptable at the end of September, and that a balance \$10 billion higher would not be inappropriate.

Sealed-bid, single-price auction

The Committee agreed (by consensus) that the current multiple-price auction technique works well for the Treasury. The Committee does not oppose experimenting with another way to auction Treasury securities. They believed, however, that the Treasury should wait to begin experimenting until after the Treasury-Federal Reserve conference on the auction technique that is to be held on June 3, 1992.

The Committee believed that the Treasury should begin the experiment before automation of the auction is implemented, perhaps as early as July. They believed that experimentation for a period of 6 months to a year (to be specified in advance) would have the positive effect of providing the Treasury and the market experience with single-price auctions before automation permits the Treasury to conduct an on-line, iterative auction. The \$5 million maximum noncompetitive award should not be changed during the test period. By a vote of 9 to 7, the Committee recommended experimenting monthly with both the 2-year and the 5-year note auctions. The 7 noes preferred experimenting only with the monthly 5-year notes. The Committee consensus was that the Treasury should not experiment with bills.

The Committee suggested that the Treasury take the following factors into consideration to evaluate the sealed-bid, single-price auction experiment:

1. Did the number of auction participants change?
2. Did the volume of when-issued trading activity, relative to total market activity, prior to the auction change in any significant way?
3. Was there a change in the net short position of dealers the day before the auction?
4. Was there a larger number of small bidders?
5. Was there a change in intraday price volatility in the pre-auction or post-auction when-issued trading periods?
6. Was there a significant change in auction coverage at each basis point bid?
7. Was there any change in noncompetitive bidding volume?

Type of auction for reopening

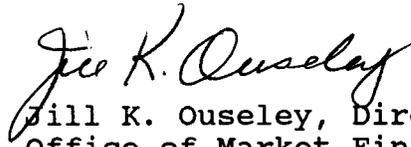
The Committee recommended by consensus using the discriminating-price technique to reopen any Treasury security that is subject to an acute, protracted shortage. The purpose of issuing the additional amount is to remedy a distortion in the market and, thus, is different from that of Treasury's regularly scheduled auctions. The Committee believed the discriminating-price auction in this case would result in a higher price to the Treasury than a single-price auction. The Committee consensus was that Treasury should announce an amount to be sold in a reopening, with the possibility of overallotments, depending upon market demand at a yield that is acceptable to the Treasury.

The meeting adjourned at 4:45 p.m.

April 29

The Committee reconvened at 9:00 a.m. at the Treasury. All members were present, except Messrs. Corzine, Menne, and Michaelcheck. The Chairman presented the Committee report to Assistant Secretary Powell. There was a question-and-answer period related to the recommendations. The meeting adjourned at 9:40 a.m.

Attachments


Bill K. Ouseley, Director
Office of Market Finance
Domestic Finance
May 1, 1992