

**MINUTES OF THE MEETING OF THE  
TREASURY BORROWING ADVISORY COMMITTEE  
OF THE PUBLIC SECURITIES ASSOCIATION  
AUGUST 2 AND 3, 1994**

August 2

The Committee convened at 11:40 a.m. at the Treasury Department for the portion of the meeting that was open to the public. All 20 members were present. The Federal Register announcement of the meeting and a list of Committee members are attached.

Deputy Assistant Secretary for Federal Finance Darcy Bradbury welcomed the Committee and the public to the meeting. Assistant Secretary for Economic Policy Alicia Munnell gave a summary of the current state of the U.S. economy. Jill Ouseley, Director, Office of Market Finance, presented an informational briefing updating Treasury borrowing estimates and statistical information on recent Treasury borrowing and market interest rates. The borrowing estimates and other information in chart form had been released to the public on August 1, 1994.

The public meeting ended at 12:18 p.m.

August refunding

The Committee reconvened in closed session at the Madison Hotel at 2:00 p.m. All members were present. Deputy Assistant Secretary Bradbury gave the Committee its Charge, which is also attached. The Committee first discussed the size of the August midquarter refunding within the context of the Treasury's estimate of a \$45 billion net market borrowing requirement during the July-September 1994 quarter.

The Committee discussed recommending that the August refunding consist of \$17 to \$17-1/2 billion of 3-year notes, \$12 billion of 10-year notes, and \$11 to \$11-1/2 billion of 30-year bonds. A majority of 14 members voted to recommend a \$40-1/2 billion August refunding consisting of \$17 billion of 3-year notes, \$12 billion of 10-year notes, and \$11-1/2 billion of 30-year bonds. An increase in the bond was preferred to an increase in the 3-year note.

The Committee voted unanimously to reopen the 7-1/4% Treasury notes of May 15, 2004. Members believed that reopening would enhance market liquidity in the 10-year maturity area.

The Committee then considered the maturity date for the long-term bond. By a majority of 16 to 4, the Committee voted to recommend a bond that would have interest payments in May and November, as opposed to February and August. The Committee then

voted by 12 ayes, 2 noes, and 6 abstentions, to recommend issuing a 30-1/4 bond, maturing on November 15, 2024. The other option presented was a 29-3/4 year bond maturing on May 15, 2024. The majority believed that the Treasury would benefit from issuing the 30-1/4 year bond, because it would be more attractive for stripping and potentially it could be reopened in the February refunding.

By consensus, the Committee agreed to adopt the draft financing plan for the rest of the July-September quarter and for October-December period displayed in a draft proforma, as modified. One of the modifications would be to split the estimated cash management bill need in the rest of the July-September period between bills issued on August 15 and on September 2, both to mature on September 22. The draft proforma is also attached. Also by consensus, the Committee agreed to recommend cash balances of \$40 billion on September 30 and \$30 billion on December 31.

#### Single-price auction

Paul Malvey, Senior Economist, Office of Market Finance, U.S. Treasury, explained the charts that were attached to the Committee's Charge. The charts display different aspects of the results to date of single-price auctions of 2- and 5-year notes.

The Committee's sense was that the 2- and 5-year notes appear to be more widely distributed in the single-price auction than securities that the Treasury is selling in the multiple-price auctions. This belief is based on experience, as well as the Treasury data, which show a high degree of variability in auction results. The single-price auction appears to the members to be neutral with respect to Treasury borrowing costs. Members observed, however, that the single-price auction has not been tested in a rising yield environment. The Committee voted by 17 to 3 to recommend extending the time period for the single-price auction experiment and expanding it to include 10-year notes.

#### Three-decimal yield bidding

The final item in the Charge was to consider whether the Treasury should adopt 3-decimal bidding in auctions of notes and bonds. The Committee's recommendation to proceed with 3-decimal yield bidding was unanimous. The members believed that bidding in tenth of basis point, rather than full basis point, yield increments would bring more participants into auctions, particularly of longer term securities. Also, 3-decimal yield bidding would conform Treasury auctions with market practice in which securities are traded in 3-decimal yield increments.

The meeting adjourned at 4:30 p.m.

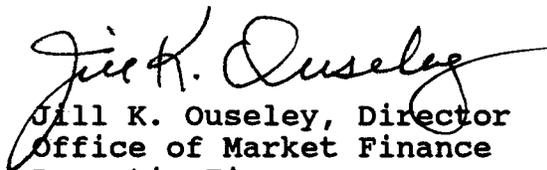
August 3

The Committee reconvened at 8:30 a.m. at the Treasury in closed session. All members were present, except Mr. Kessenich and Mr. McKnew. The Chairman presented the Committee report (copy attached) to Under Secretary for Domestic Finance Frank N. Newman and Deputy Assistant Secretary Bradbury.

In response to a question, the Committee expanded upon the recommendation of a 30-1/4 year bond. Members believed that it is appropriate for the Treasury to increase the long-term bond in the August refunding, after having left the size unchanged at \$11 billion since August 1993. Also, the Treasury issues a large volume of securities in the short intermediate maturity area. Banks, which are the natural constituency for short-term notes, have been increasing commercial lending activity recently and decreasing their purchases of Government securities.

Committee members also responded to questions regarding extending the single-price auction experiment. Expanding upon the discussion at the meeting on August 2, members suggested that experimenting with 10-year note auctions would be beneficial, because the types of bidders that participate in 10-year auctions are somewhat different from bidders in 2- and 5-year note auctions. Members did not believe that a similar benefit would be gained from experimenting with bill auctions.

The meeting adjourned at 9:30 a.m.

  
Jill K. Ouseley, Director  
Office of Market Finance  
Domestic Finance  
August 3, 1994

## Attachments

Certified by:

  
Stephen C. Francis, Chairman  
Treasury Borrowing Advisory Committee  
of the Public Securities Association  
August 3, 1994