

**MINUTES OF THE MEETING OF THE
TREASURY BORROWING ADVISORY COMMITTEE
OF THE BOND MARKET ASSOCIATION
May 5, 1998**

The Committee convened at 9:15 a.m. at the Treasury Department for the portion of the meeting that was open to the public. All members were present, except Mr. Francis. The Federal Register announcement of the meeting and a list of Committee members are attached.

Deputy Assistant Secretary for Federal Finance Roger Anderson welcomed the Committee and the public to the meeting. John Auten, Director, Office of Financial Analysis, summarized the current state of the U.S. economy (statement attached). Jill Ouseley, Director, Office of Market Finance, presented the chart show, which had been released to the public on May 4, updating Treasury borrowing estimates and providing statistical information on recent Treasury borrowing and market interest rates.

The public meeting ended at 9:45 a.m.

The Committee reconvened in closed session at the Madison Hotel at 11:55 a.m. All members were present, except Mr. Francis. Deputy Assistant Secretary Anderson gave the Committee its Charge, which is also attached.

The Committee began by considering the Treasury question regarding the treatment of awards to foreign official accounts in auctions of notes and bonds. The members discussed the potential risks and benefits of including awards to foreign official accounts in the announced amount of Treasury auctions, as opposed to adding them to the announced amount. The Committee voted 10 to 9 to recommend including awards to foreign official accounts in the offered amount.

The Committee then turned to the questions in the Treasury's Charge pertaining to changing the new issue schedule for Treasury notes. An overarching theme of the discussion emphasized the importance of the benchmark status and market liquidity of coupon issues and of Treasury bills. Longer term proforma financing plans developed by a Committee member (attached as Baseline A and Baseline B) were discussed, especially the plans displayed on pages

A125 and B125 in which 3-year notes were assumed to be discontinued and the frequency of 5-year note issues was reduced to quarterly. The Committee voted unanimously to recommend that the Treasury stop issuing 3-year notes after the May refunding, reduce to four the number of new issues of 5-year notes each year, and include the 5-year notes in quarterly refundings. The last monthly 5-year note would be in June.

Regarding buy-backs of Treasury securities in the market, the Committee consensus was that buy-backs would not be useful to the Treasury at this time in light of structural changes that the Committee proposes for Treasury auction sizes and frequencies. Moreover, technical Federal budget issues may complicate implementation of buy-backs.

The Committee then discussed the financing plan for the April-June quarter, including the May refunding. See the attached draft financing plans for the April-June quarter and the July-September quarter, which were prepared by one of the members before the meeting. The Committee consensus was that the Treasury should wait until the July-September quarter to implement the changes in the borrowing structure discussed above. They voted 18 to 1 to recommend a May refunding consisting of \$10.0 billion of 3-year notes and \$12.0 billion of 10-year notes.

With regard to the July-September quarter, the Committee discussed the sizes of the 2- and 5-year notes, in light of the changes in the offering schedule discussed above. The majority (11) voted to recommend a that the August refunding consisting of \$18 billion of 5-year notes, \$12 billion of 10-year notes, and \$10 billion of 30-year bonds. A minority (5) would recommend \$17 billion of 5-year notes, \$13 billion of 10-year notes, and \$10 billion of 30-year bonds the remaining members would recommend a \$20 billion 5-year note.

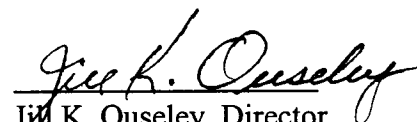
Finally, the Committee discussed the next issue of inflation-indexed bonds. The recommendation to reopen the April 30-year inflation-indexed bond was nearly unanimous (18 members in favor and one abstention).

The meeting adjourned at 2:15 p.m.


The Committee reconvened at the Madison Hotel at 5:40 p.m. All members were present, except Mr. Francis. The Chairman presented the Committee report (copy attached) to Assistant Secretary Gensler, Acting Assistant Secretary Hammond, and Deputy Assistant Secretary Anderson. In reply to questions from Treasury officials, Committee members briefly

remarked on the likely market reaction, if the Treasury decides to stop issuing 3-year notes and to issue 5-year notes in the quarterly refunding. There was also brief further discussion of the treatment of awards to foreign official accounts in Treasury auctions.

The meeting adjourned at 6:05 p.m.


Jill K. Ouseley, Director
Office of Market Finance
May 5, 1998

Certified by:


Stephen Thieke, Chairman *for Stephen Thieke, Chairman*
Treasury Borrowing Advisory Committee
of The Bond Market Association
May 6, 1998