

**Report to the Secretary of the Treasury  
from the Treasury Borrowing Advisory Committee  
of the Securities Industry and Financial Markets Association**

November 4, 2009

Dear Mr. Secretary:

Since the Committee met in early August, the contraction in economic activity appears to have drawn to a close and financial conditions have continued to improve. Aggressive fiscal and monetary policies have played a critical role in helping to begin the process of normalization in key financial markets and the real economy. That normalization is highlighted in part by a return to pre-crisis spread levels in money and credit markets and the recently reported 3½% annualized gain in third-quarter GDP.

Despite the increase in third-quarter economic activity and the prospect of additional modest growth ahead, it remains unclear to what extent the economy can expand without the aid of aggressive policy support. Monetary and fiscal policy remains full throttle and contributed importantly to the latest quarter's growth spurt. For instance, "cash for clunkers" lifted consumer purchases of motor vehicles, the first-time homebuyers' tax credit is boosting home sales and traditional public sector automatic stabilizers are supporting household income, while on the monetary side, near zero interest rates and asset purchase and liquidity programs are shifting investor risk preference, improving the cost of capital.

With the federal funds rate at its lower nominal bound, the Federal Reserve is continuing its asset purchase program in an effort to further improve financial conditions. The Treasury purchase program begun in March has been completed but the purchase of mortgage backed securities is ongoing and will persist into the first quarter of 2010. These purchases will be a continued source of monetary stimulus.

Against this economic backdrop, the Committee's first charge was to examine what adjustments to debt issuance, if any, should Treasury make in consideration of its financing needs. The Committee felt that no meaningful change in the nominal coupon issuance schedule was necessary. Members felt that there was capacity to reasonably grow auction sizes as needed.

With regard to TIPS, the Committee recommends increasing TIPS issuance from \$58 billion in 2009 to \$70-\$80 billion in 2010. The auction schedules for both 5 and 10-year TIPS would be maintained, although sizes would increase. However, 20-year TIPS issuance would be replaced with 30-year TIPS, on the same auction schedule, with larger sizes. The Committee felt that this would both lengthen the average maturity of Treasury's debt, while attracting investors interested in longer duration inflation protection. In the medium term, the Committee felt that the market could support increases in both auction sizes and frequency, growing gross TIPS issuance to \$100-\$130 billion per annum. These actions maintain, if not increase, the proportion of TIPS to total marketable debt outstanding.

There was lively debate among the Committee members regarding the GAO Report published September 2009 entitled "Treasury Inflation Protected Securities Should Play a Heightened Role in Addressing Debt Management Challenges." Committee members could not come to broad agreement on the findings of the report. While Committee members acknowledged the benefits of TIPS as a debt management tool, some members reiterated their higher cost to date versus nominal Treasury securities.

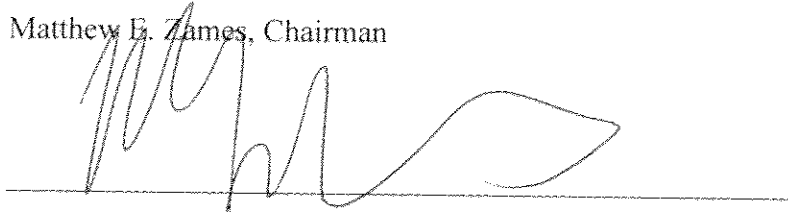
The second charge was to examine the implications of Federal Reserve exit strategies on the Treasury market. The Committee member's presentation (see attached) attributed investor demand across a variety of asset classes including Treasuries, largely in part to the Fed's zero interest rate policy, asset purchase program, and credit easing facilities. In particular, the member highlighted that after accounting for Fed purchases, net fixed income supply in 2009 was actually negative. Thus, exit strategies, whether it's a wind down of asset purchases, reverse repos, or raising the Fed Funds rate, must be carried out with extreme caution. Several members of the Committee debated the merits of the Fed engaging in reverse repos while continuing its asset purchase program.

The third charge was to examine Treasury debt portfolio characteristics. The Committee member (see attached presentation) was asked to contemplate the average maturity of Treasury's debt given structural financing needs coupled with the economic outlook in the medium and long term. In addition, the member examined financing and risk management by other sovereign nations and how it might apply to US Treasury debt management. The conclusions were that the potential for inflation, higher interest rates, and roll over risk should be of material concern. In most economic scenarios, lengthening the average maturity of debt from 53 months to 74-90 months was recommended. Committee members commented that while real progress has been made in terms of lengthening the average maturity of US Treasury debt to 53 months, [net issuance in coupons growing from \$188.5 billion in 2008 to \$1.246 trillion in 2009], more needs to be done in this regard.

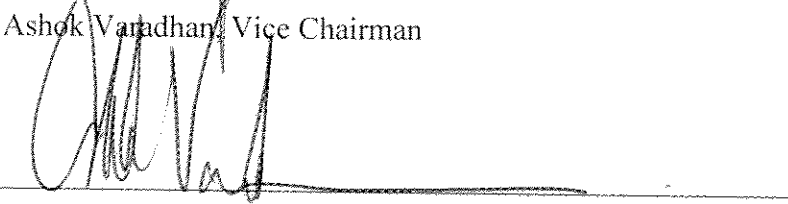
In the final charge, the Committee considered the composition of marketable financing for the upcoming two quarters. The Committee's recommendations are attached.

Respectfully Submitted,

Matthew E. Zames, Chairman

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Ashok Varadhan, Vice Chairman

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US TREASURY FINANCING SCHEDULE FOR 4th QUARTER 2009  
BILLIONS OF DOLLARS

ISSUE	ANNOUNCEMENT DATE	AUCTION DATE	SETTLEMENT DATE	OFFERED AMOUNT				MATURING AMOUNT	NEW MONEY
				4-WK	3-MO	6-MO	12-MO		
4-WEEK AND 3&6&12 MO BILLS	9/24	9/29	10/1	22.00	30.00	29.00		87.00	-6.00
	10/1	10/5	10/8	24.00	30.00	30.00		84.00	2.00
	10/8	10/13	10/15	24.00	30.00	30.00		74.00	10.00
	10/15	10/19	10/22	24.00	30.00	30.00	27.00	96.00	15.00
	10/22	10/26	10/29	28.00	29.00	30.00		82.00	5.00
	10/29	11/2	11/5	28.00	29.00	30.00		83.00	4.00
	11/5	11/9	11/12	26.00	28.00	29.00		88.00	-3.00
	11/12	11/16	11/19	26.00	27.00	28.00	27.00	106.00	2.00
	11/19	11/23	11/27	25.00	27.00	28.00		89.00	-9.00
	11/25	11/30	12/3	25.00	27.00	27.00		89.00	-10.00
	12/3	12/7	12/10	23.00	27.00	27.00		86.00	-9.00
	12/10	12/14	12/17	22.00	27.00	27.00	27.00	107.00	-4.00
	12/17	12/21	12/24	18.00	27.00	27.00		84.00	-12.00
	12/24	12/28	12/31	18.00	27.00	27.00		85.00	-13.00
					<u>1208.00</u>			<u>1236.00</u>	<u>-28.00</u>
<b>CASH MANAGEMENT BILLS</b>									
70-DAY BILL	Matures 10/1							35.00	-35.00
70-DAY BILL	Matures 10/8							30.00	-30.00
16-DAY BILL		10/8	10/13		10.00			10.00	0.00
	Matures 10/29								
70-DAY BILL	Matures 10/15							35.00	-35.00
328-DAY BILL	Matures 10/22							35.00	-35.00
70-DAY BILL	Matures 10/22							35.00	-35.00
42-DAY BILL		10/21	10/29		15.00			15.00	0.00
	Matures 12/10								
70-DAY BILL	Matures 10/29							30.00	-30.00
300-DAY BILL		10/28	10/30		25.00				25.00
	Matures 8/26/10								
20-DAY BILL		11/20	11/25		15.00			15.00	0.00
	Matures 12/15								
70-DAY BILL		12/8	12/10		15.00				15.00
	Matures 2/18/10								
									<u><u>-160.00</u></u>
<b>COUPONS</b>									
									<b>CHANGE IN SIZE</b>
10-year TIPS @	10/1	10/5	10/15	7.00	1.00				
3-year Note	10/1	10/6	10/15	39.00	1.00				
10-year Note @	10/1	10/7	10/15	20.00					
30-year Bond @	10/1	10/8	10/15	12.00			14.40		63.51
5-year TIPS @	10/22	10/26	10/30	7.00	1.00				
2-year Note	10/22	10/27	11/2	44.00	1.00				
5-year Note	10/22	10/28	11/2	41.00	1.00				
7-year Note	10/22	10/29	11/2	31.00	2.00		20.01		102.99
3-year Note	11/4	11/9	11/16	40.00	1.00				
10-year Note	11/4	11/10	11/16	24.00	1.00				
30-year Bond	11/4	11/12	11/16	16.00	1.00		37.47		42.53
2-year Note	11/19	11/23	11/30	45.00	1.00				
5-year Note	11/19	11/24	11/30	42.00	1.00				
7-year Note	11/19	11/25	11/30	32.00	1.00		20.00		99.00
3-year Note	12/3	12/8	12/15	40.00	0.00				
10-year Note @	12/3	12/9	12/15	21.00	1.00				
30-year Note @	12/3	12/10	12/15	13.00	1.00		14.60		59.40
2-year Note	12/17	12/21	12/31	45.00	0.00				
5-year Note	12/17	12/22	12/31	42.00	0.00				
7-year Note	12/17	12/23	12/31	32.00	0.00			22.00	97.00
				<u>593.00</u>	<u>0.00</u>			<u>128.48</u>	<u>464.53</u>

Estimates are italicized. R = Reopening

NET CASH RAISED THIS QUARTER: 276.53

US TREASURY FINANCING SCHEDULE FOR 1st QUARTER 2010  
BILLIONS OF DOLLARS

ISSUE	ANNOUNCEMENT	AUCTION	SETTLEMENT	OFFERED				MATURING	NEW	
	DATE	DATE	DATE	4-WK	3-MO	6-MO	12-MO	AMOUNT	MONEY	
4-WEEK AND 3&6&12 MO BILLS	12/31	1/4	1/7	18.00	27.00	27.00		84.00	-12.00	
	1/7	1/11	1/14	19.00	28.00	28.00	27.00	104.00	-2.00	
	1/14	1/19	1/21	20.00	29.00	28.00		79.00	-2.00	
	1/21	1/25	1/28	22.00	29.00	29.00		78.00	2.00	
	1/28	2/1	2/4	24.00	30.00	30.00		78.00	6.00	
	2/4	2/8	2/11	26.00	30.00	30.00	27.00	101.00	12.00	
	2/11	2/16	2/18	28.00	30.00	30.00		77.00	11.00	
	2/18	2/22	2/25	28.00	31.00	31.00		79.00	11.00	
	2/25	3/1	3/4	28.00	31.00	31.00		80.00	10.00	
	3/4	3/8	3/11	26.00	31.00	31.00	27.00	106.00	9.00	
	3/11	3/15	3/18	24.00	30.00	31.00		84.00	1.00	
	3/18	3/22	3/25	22.00	30.00	30.00		84.00	-2.00	
					<u>1078.00</u>				<u>1034.00</u>	<u>44.00</u>
	<b>CASH MANAGEMENT BILLS</b>									
63-DAY BILL		1/12	1/14		30.00			30.00	0.00	
	Matures 3/18									
70-DAY BILL		2/16	2/18		15.00			15.00	0.00	
	Matures 4/29/10									
20-DAY BILL		2/23	2/25		40.00			40.00	0.00	
	Matures 3/17									
								<b>CMB Funds:</b>	<u>0.00</u>	
<b>COUPONS</b>										
									<b>CHANGE</b>	
									<b>IN SIZE</b>	
10-year TIPS	1/7	1/11	1/15	11.00	3.00					
3-year Note	1/7	1/12	1/15	40.00	0.00					
10-year Note ®	1/7	1/13	1/15	21.00	0.00					
30-year Bond ®	1/7	1/14	1/15	13.00	0.00		26.32	58.68		
30-year TIPS	1/21	1/25	1/29	9.00	9.00					
2-year Note	1/21	1/26	2/1	45.00	0.00					
5-year Note	1/21	1/27	2/1	42.00	0.00					
7-year Note	1/21	1/28	2/1	32.00	0.00		25.00	103.00		
3-year Note	2/3	2/9	2/16	40.00	0.00					
10-year Note	2/3	2/10	2/16	24.00	0.00					
30-year Bond	2/3	2/11	2/16	16.00	0.00		48.34	31.66		
2-year Note	2/18	2/23	3/1	45.00	0.00					
5-year Note	2/18	2/24	3/1	42.00	0.00					
7-year Note	2/18	2/25	3/1	32.00	0.00		26.00	93.00		
3-year Note	3/4	3/9	3/15	40.00	0.00					
10-year Note ®	3/4	3/10	3/15	21.00	0.00					
30-year Note ®	3/4	3/11	3/15	13.00	0.00		14.13	59.87		
2-year Note	3/18	3/23	3/31	45.00	0.00					
5-year Note	3/18	3/24	3/31	42.00	0.00					
7-year Note	3/18	3/25	3/31	32.00	0.00		28.00	91.00		
				<u>605.00</u>			<u>167.79</u>	<u>437.21</u>		

Estimates are italicized. R = Reopening

**NET CASH RAISED THIS QUARTER: 481.21**