

## MEMORANDUM

To: Members of the Committee on Financial Services

From: FSC Majority Staff

Date: June 2, 2023

Re: June 6, 2023 Subcommittee Hearing: “Uncertain Debt Management: Treasury Markets and Financial Institutions.”

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On Tuesday, June 6, 2023, at 10:00 a.m. in Room 2128 of the Rayburn House Office Building, the Financial Services Subcommittee on Financial Institutions and Monetary Policy will hold a hearing titled “Uncertain Debt Management: Treasury Markets and Financial Institutions.”

Testifying at the hearing will be:

- Grant Driessen, Specialist in Public Finance, Congressional Research Service
- Jeff Arkin, Director, Strategic Issues Team, Government Accountability Office

### **Purpose of the Hearing**

The hearing will provide members with the opportunity to examine:

- The Department of the Treasury (Treasury)’s debt management practices.
- The volatility in Treasury securities and related financial markets created by those debt management practices and other stresses.
- The formulations used to project the “X-Date.”
- The lack of transparency surrounding the calculations used in generating X-Date projections.
- The determination and use of “extraordinary measures” by Treasury to delay the X-Date.

### **Background**

Treasury is tasked with issuing debt securities (Treasuries) to fund deficits created when federal government spending exceeds revenues. Treasuries are categorized based on their maturity, and often serve as reference rates for other financial instruments and trades. The multi-trillion-dollar global market for Treasuries serves as a deep and liquid source of safe assets for financial market participants who use Treasuries for collateral, to satisfy regulatory requirements on asset holdings, and for savings and investments generally. Treasury market volatility can have broad adverse effects for financial institutions and global financial markets.

The term “X-Date” is the projected date on which Treasury would not be able to: (1) issue additional Treasury debt obligations because of the statutory debt limit; or (2) generate additional

headroom for borrowing while remaining under the limit from use of extraordinary measures.<sup>1</sup> It also indicates that Treasury does not have sufficient available operating cash to be able to pay off all incoming due obligations on Treasury debt.

**Legislation attached to this hearing includes the following:**

**H.R. \_\_\_ To require FSOC Chairperson to provide information.**

Requires the Chairperson of the Financial Stability Oversight Council (FSOC) to provide contingency plans for a disruption in the timing Treasury security payments, recommendations from FSOC for Treasury market participants for confronting operational challenges that would be faced if Treasury security payments are delayed, and recommendations from FSOC for how to respond to delayed Treasury security payments.

**H.R. \_\_\_ To require the Treasury Secretary to report on debt management.**

Requires the Treasury Secretary to issue a report to voting members of the FSOC, Office of Financial Research, House Committee on Financial Services, and Senate Committee on Banking, Housing, and Urban Affairs when initiating extraordinary measures. These reports would provide information on the use of extraordinary measures during periods in which the U.S. approaches a breach of the statutory debt limit, including amounts of headroom projected to be made available through use of the measures, and how long the measures are expected to provide headroom.

**H.R. \_\_\_ To require testimony and reports on debt management.**

Requires the Treasury Secretary to testify and issue reports in anticipation of the federal government reaching the statutory limit, and directs the Office of Financial Research to provide information related to debt and debt management.

**H.R. \_\_\_ To amend the FDIC Act assessments.**

Amends the Federal Deposit Insurance Act to require the Federal Deposit Insurance Corporation to accept Treasury securities with maturities of less than five years, valued at par, for payment of any special assessments issued before end of 2024.

**H.R. \_\_\_ To place Federal Reserve supervision on appropriations.**

Places the Federal Reserve Board supervision functions on appropriations, while protecting the independence of monetary policy.

**H.R. \_\_\_ To modify asset thresholds, providing regulatory relief for community banks:**

Increases certain asset thresholds for community bank regulatory relief to \$50 billion from \$10 billion.

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<sup>1</sup> Extraordinary measures are the steps Treasury takes to delay taking on additional debt obligations that would otherwise occur.