DEBT MANAGEMENT

Treasury Has Improved Short-Term Investment Programs, but Should Broaden Investments to Reduce Risks and Increase Return

What GAO Found

In managing the funds that flow through the federal government’s account, Treasury frequently accumulates cash because of timing differences between when borrowing occurs, taxes are received, and agency payments are made. Treasury often receives large cash inflows in the middle of the month and makes large, regular payments in the beginning of the month.

Treasury uses three short-term vehicles—Treasury Tax & Loan (TT&L) notes, Term Investment Option (TIO) offerings, and limited repurchase agreements (repo)—to invest operating cash. Before Treasury invests any portion of its operating cash balance, Treasury generally targets a $5 billion balance in its Treasury General Account (TGA) which is maintained across the 12 Federal Reserve Banks. The TT&L program provides Treasury with an effective system for collecting federal tax payments while assisting the Federal Reserve in executing monetary policy, but it subjects Treasury to concentration risk and earns a return well below the market rate. The TIO program earns a greater rate of return but it also subjects Treasury to concentration risk. Both programs also present capacity concerns. Treasury began testing repos through a pilot program in 2006. Repos have earned near market rates of return, but because of the pilot’s scope and the current, limited legislative authority under which it operates, the repo participants, collateral, trading terms, and trading arrangements are restricted.

Allocation of Treasury’s Operating Balance by Investment Type, Fiscal Year 2006

A permanent, expanded repo program could permit Treasury to earn a higher rate of return, expand investment capacity, and reduce concentration risk. If given authority to design such a program, Treasury would need to tailor it to meet liquidity needs and to achieve a higher rate of return while minimizing risks that are associated with the selection of program participants, collateral types, terms of trade, and trading arrangements.