TMPG Meeting Minutes

Date: April 8, 2025
Location: CME Group, 300 Vesey Street

TMPG attendees

Alberto Antonini (Tudor Investment Corp)
Richard Chambers (Goldman Sachs)
Qing Chen (Morgan Stanley)
Debbie Cunningham (Federated Hermes)
David Finkelstein (Annaly Capital Mgt)
David Flowerdew (Millennium Mgt)
Matthew Franklin-Lyons (JP Morgan)
Doug Friedman (Tradeweb)
Lara Hernandez (Mirae Asset Sec)
Makoto Kasai (Bank of Japan)
Laura Klimpel (DTCC)
Serena Lin (Mizuho Securities)
John Madziyire (Vanguard)
Edward McLaren (Bank of America)
Adam Nunes (Hudson River Trading)
Andrea Pfenning (BNY)
Gerald Pucci (BlackRock)
Casey Spezzano (NatWest Markets)
Suzanne Sprague (CME Group)

Federal Reserve Bank of New York (New York Fed) attendees

Adam Copeland
Ellen Correia Golay
Vinuthna Kovvuri
Anna Nordstrom
Roberto Perli
Brett Rose
Janine Tramontana
Agata Zhang

U.S. Department of Treasury attendee

Brian Smith

Board of Governors attendee

David Bowman

- The meeting commenced on an administrative note, with the Chair thanking departing members, Edward McLaren of Bank of America and Andrea Pfenning of BNY, for their valuable contributions and dedication to the Group over the past several years.

- The Chair noted that members had reviewed the TMPG white paper Operational Plans for Various Contingencies for Treasury Debt Payments, last updated in 2021, and confirmed the paper maintained relevant information on the potential practices that could be used to support the continued trading and transferability of Treasury securities that are subject to delayed payments. The Chair emphasized that the practices described in the paper, if implemented, would only modestly reduce, not eliminate, the operational difficulties posed by untimely payments on Treasury debt.

- The TMPG Secretariat provided a brief update on the preparations for the new Agency Mortgage-Backed Securities (MBS) Working Group, noting that working group members have been assembled.

- Following administrative announcements, the TMPG Secretariat provided the semiannual margining summary of forward settling agency mortgage-backed securities (MBS) trades. Over the six-month period ending March 15, 2025, TMPG member firms had, on average, executed margining agreements with about 93 percent of their counterparties in Q4 2024, and about 91 percent in Q1 2025. These agreements covered approximately 98 percent and 99 percent of the notional trading volume of forward settling MBS transactions (excluding those centrally cleared) for the respective periods. Margin exchange was operationalized roughly 99 percent of these executed agreements for both quarters. The statistics for each period were in line with recent averages.

- Members then transitioned to the discussion of U.S. Treasury central clearing developments. The extended deadlines for mandatory clearing of eligible U.S. Treasury cash and repo transactions were noted.

  A CME Group member of the TMPG gave an overview of the CME's proposed approach to U.S. Treasury cash and repo clearing, highlighting similarities and differences in operational flows between users, clearing members, and the clearinghouse under both the supported and independent user access models. It was noted that both models are designed to facilitate done-away repo activity and are expected to offer balance sheet benefits to members. It was noted that, in the supported user access model, clearing members would be required to post initial margin to the clearinghouse on behalf of the users and the accounts will align with 15c3-3 requirements. In the independent user access model, margin will be posted directly by users, while still giving members the option to fund the independent user account on behalf of the user. The CME representative noted that both models are expected to be launched by the end of the year, pending regulatory approval.

  The CME Group and Depository Trust and Clearing Corporation representatives gave an update on the proposed expansion of the existing CME Group-Fixed Income Clearing Corporation (FICC) cross-margining arrangements to include customers of clearing members with cleared transactions in both U.S. Treasury securities and interest rate futures – a service that is currently only available to clearing members of FICC and CME Group. To participate in the program, customers would be required to leverage the same clearing member at both clearinghouses and fund margin obligation owing to each clearing house. FICC Calculator for scenario testing and CME optimization tools are expected to assist end-user customers with related optimization decisions. To conclude, the representatives reported that the service is expected to be launched in December 2025, subject to regulatory approval.

  The Chair led a member discussion on open issues regarding the SEC's central clearing mandate. Members noted that new central clearing offerings are emerging which may lead to the development of new client access models or expanded client services. While members welcome innovation, some suggested that having multiple central clearing counterparties could introduce a degree of uncertainty around how the liquidity flows, including settlement fails, will be impacted as well as operational challenges. Members also noted delays in accounting analyses with respect to done-away repo trading and in industry work to develop pre-trade credit check solutions for repo. Members also highlighted several interpretation requests related to the scope of eligible transactions including mixed security type repo. Continued concerns around the inter-affiliate exemption were also mentioned. It was observed that customer margin segregation options are now fully operational at FICC.

- A New York Fed representative gave an update on the U.S. Treasury Repo Risk Management outreach efforts. It was noted, that following the publication of the TMPG consultative white paper Non-Centrally Cleared Bilateral Repo and Indirect Clearing in the U.S. Treasury Market: Focus on Margining Practices, proposed best practice recommendations on U.S. Treasury repo risk management, and Frequently Asked Questions, the TMPG Secretariat took steps in efforts to raise awareness and solicit feedback on the materials. This included outreach to SIFMA member firms, social media promotion, and scheduled drop-in calls. The representative also highlighted a blog post referencing TMPG materials. Members then added that various industry groups are in the process of collecting feedback on the materials. The discussion concluded with a preliminary discussion of what a reasonable implementation timeframe recommendation might be. Members were asked to provide feedback to the TMPG Secretariat on this topic.

- The TMPG then discussed market developments since the February TMPG meeting, including market reaction to reciprocal tariff deadlines, shifts in the U.S. economic outlook, expectations for the path of the Fed's policy rate, and quarter-end dynamics in money markets.

Market Reaction to Reciprocal Tariff Deadline and Shifts in the U.S. Economic Outlook

- Members were largely focused on the administration's reciprocal tariff deadline and the significant cross-asset reaction in subsequent days. Members noted that the announcement of notably broader and larger than expected tariff rates further increased recessionary concerns and the possibility of economic weakness persisting over the medium term, especially amid a recent string of somewhat weaker-than-expected U.S. economic data. Meanwhile, members also expected an increase to U.S. inflation in the near term as a result of the tariffs. However, this was perceived as likely to be just a one-time price level shock. Members were also attentive to the significant decline in equities and broader risk assets in the days following the announcement, which they attributed to the stock market's greater focus on growth rather than inflation expectations.
- Members highlighted that price action in fixed income was orderly and liquidity was not too challenged in the initial days after the tariff announcement. However, members were highly attentive to worsening Treasury market liquidity over the course of the TMPG meeting day, citing sharp deterioration in medium to high frequency liquidity metrics. While members maintained that current market issues were rooted in the equity markets, they identified key watchpoints, such as the upcoming 10-year Treasury note and 30-year bond auctions given poor subscription in the 3-year Treasury note auction that same day, potential portfolio allocation actions by foreign central banks, and future trade policy actions of the administration, that could further strain Treasury market liquidity.
- Members were also attentive to the significant narrowing in swap spreads amid stop-outs from swap spread positions as of the TMPG meeting day. This was viewed as a result of forced deleveraging by hedge funds and other buy-side participants, driven primarily by risk management motives rather than profit and loss objectives. On the other hand, members noted that any unwinding of basis trade positioning has been relatively limited during this episode of volatility.

March FOMC Market Reaction and Expectations for the Path of Policy Rate

- Overall, members agreed that the market perceived the March FOMC balance sheet policy decision - a reduction in the monthly redemption cap on Treasury securities run off from $25 billion to $5 billion starting in April - as well-balanced and that Treasury market pricing and liquidity conditions did not show any notable signs of deterioration in the days following the FOMC.
- Members highlighted that recent volatility in the futures market has been elevated with risk premium playing an important role in pricing, and that heightened uncertainty and poor market liquidity have made it challenging to draw meaningful conclusions from futures pricing about the potential U.S. interest rate outcomes. However, members expect the Federal Reserve will

likely wait for signs of a more significant weakness in the labor market before cutting U.S. interest rates, noting that the economy is currently in a slowing phase rather than showing signs of deterioration.

Quarter-End Dynamics in Money Markets

- Members noted that money market conditions have been less impacted relative to other markets and asset classes during this episode of market volatility, characterizing these markets as generally being a safe haven in times of stress.
- Members also briefly discussed quarter-end dynamics in funding markets for the March quarter-end 2025, which coincided with the broader market volatility event. Members noted that the outflows were largely contained.

− The next TMPG meeting is scheduled for May 20, 2025, from 3:00-5:00 PM.