TMPG Meeting Minutes

Date: June 25, 2024
Location: BlackRock, 50 Hudson Yards

TMPG attendees

Alberto Antonini (Tudor Investment Corp)
Richard Chambers (Goldman Sachs)
Qing Chen (Morgan Stanley)
Sunil Cutinho (CME Group)
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 Sec)
John Madziyire (Vanguard)
Edward McLaren (Bank of America)
Adam Nunes (Hudson River Trading)
Gerald Pucci (BlackRock)
Marc Seidner (PIMCO)

New York Fed attendees

Anirudh Arikarevula
Ellen Correia Golay
Frank Keane
Eric Lewin
Michelle Neal
Anna Nordstrom
Julie Remache
Brett Rose
Janine Tramontana
Agata Zhang

U.S. Department of Treasury attendee

Fred Pietrangeli

Board of Governors attendees

David Bowman
Ann Sun*

FINRA attendees*[1]

James Barry
Bill Wollman

- The TMPG Vice Chair opened the meeting by welcoming guest speakers from the Board of Governors and FINRA. The TMPG Secretariat then provided a brief update on the preparations and timing of a new Operational Resiliency Working Group, consistent with the TMPG 2024 priorities and member feedback from the previous meeting to establish a working group. The new working group will be tasked with studying existing TMPG Best Practice recommendations related to risk management and internal controls around key service providers, critical trading venues, and clearing and settlement services in light of recent cyber security events, and will consider if any additions or modifications to TMPG guidance would be useful. Next, a New York Fed representative thanked Janine Tramontana, the New York Fed Counsel, for her longstanding dedication and invaluable contributions to the Group, and welcomed Eric Lewin as an incoming New York Fed Legal ex-officio member.

- Following the administrative announcements, a Federal Reserve Board of Governors representative provided an overview of a proposal to expand operating hours of the two large value payments services, Fedwire® Funds Service and the National Settlement Service, to include weekends and holidays. It was noted that the implementation of expanded operating hours will take place no sooner than 2027, and that participation in the service will remain optional. The proposal does not

[1] The starred attendees from the Board of Governors and FINRA left the meeting following their respective presentations.

anticipate changes to Fedwire® Securities Service. The representative expressed interest in hearing views from TMPG members' firms on various considerations, including potential benefits and drawbacks of the expanded operating hours, concerns with the implementation timeframe, and needs for additional service enhancements, and encouraged members to submit any individual firm feedback in writing to the Federal Reserve Board before the comment period ends on September 6, 2024.

- FINRA representatives gave a presentation on the changes to FINRA Rule 4210 relating to forward-settling agency MBS transactions, that became fully effective earlier this year. The representatives first outlined the self-regulatory organization's efforts to implement the rule initially proposed in 2016 and prepare approximately 400 FINRA members that transact in the covered agency MBS transactions today for compliance, pointing to a comprehensive Frequently Asked Questions (FAQs) reference document. FINRA representatives then highlighted several differences between the rule and the TMPG's 2012 recommended best practice around two-way margin exchange on forward-settling Agency MBS transactions. The discussion focused on exceptions that were added to the rule in response to FINRA member feedback, including a carve out for certain multifamily housing securities and project loan program securities from the computation of a counterparty's net mark to market loss, an exclusion for certain counterparty types (including central banks and sovereigns), and an allowance for members to take added capital charges in lieu of collecting margin for a counterparty's mark-to-market losses on covered agency transactions exceeding $250,000. FINRA representatives also noted that two-way variation margin exchange between a member and its counterparty (as recommended by the TMPG's best practice recommendation) is permitted, though not required, by the FINRA rule.

- Following the FINRA presentation, the TMPG Vice Chair led a discussion about whether the differences between FINRA Rule 4210 and the longstanding TMPG best practice recommendation for two-way margin exchange for forward-settling agency MBS transactions present any impediments for market participants to continue to follow the TMPG's recommendations. Members were also asked to consider any potential areas where aligning the TMPG recommended best practice and the rule would be useful and reminded that the previous TMPG considerations of these issues took place on September 23, 2014, November 2, 2015, and December 2, 2015. The discussion focused on the agency multifamily housing securities and project loan program securities, which are excluded from FINRA Rule 4210 but are within scope of the TMPG best practice recommendation. Members generally viewed the best practice of two-way margin exchange across the range of forward-settling agency MBS transactions as an effective mitigant for credit and systemic risk and saw FINRA Rule 4210 as complementary, rather than in conflict, with the TMPG's existing guidance. However, a follow up discussion with a subset of TMPG members will take place to consider if broader communications would be helpful.

- Next, one of the Co-Chairs of the **Non-Centrally Cleared Bilateral Repo Risk Management (NCCBR) Working Group** provided an update on the Working Group's progress. The Co-Chair noted the TMPG Secretariat is developing an initial draft of the NCCBR white paper, focusing on margining practices across various repo segments and is continuing to follow up with the NCCBR Questionnaire respondent firms on the size of their non-centrally cleared bilateral repo book. Once all responses are received, the Secretariat will, where possible, aggregate and anonymize the data for the Group and potential inclusion in the NCCBR white paper.

- Members then transitioned to a discussion of market developments since the May TMPG meeting. The group discussed views on the macro-outlooks across advanced economies, including recent international developments, expectations for the path of the Fed policy, and money market conditions amid high supply of Treasury issuance.

  - Members were primarily focused on the potential fiscal impact of election outcomes in France and the UK, recognizing a shift in market focus away from inflation. Members were highly attentive to the broader market impacts of the snap election in France, causing a shock to carry trades in the European bond market with some spillover into the U.S. Treasury market. Members cited two reasons for why the market impact of the snap elections in France has been relatively contained: (1) A Euro exit is no longer being contemplated by any political party as it was some years back, and (2) about 40% of government debt has been absorbed through Quantitative Easing, which has acted as a shock absorber for the rest of Europe. However, members emphasized that the election outcome could meaningfully change the fiscal picture in the Euro area, and, in this case, the market impacts might become less contained. In Japanese developments, Governor Ueda's comments that the amount of reduction in Japanese Government Bond (JGB) purchases would be sizeable, were perceived by members as causing the JGB yield curve to steepen. It was noted that Japanese investors' demand for U.S. Treasuries continues to be soft, due to the inverted U.S. Treasury yield curve, fear for the correction of strong U.S. dollar, and portfolio rebalancing by Japanese pension funds against a backdrop of U.S. dollar appreciation. Yet, the demand continues to be stable since those investors need to maintain their portfolio diversification.

  - In the U.S., members were highly attentive to the latest lower-than-expected Consumer Price Index print and Summary of Economic Projections dots projecting one to two U.S. interest rate cuts in 2024. Members noted the decision between one or two cuts remains finely balanced, and that the market anticipates some potential for higher long-end term premia due to the increased supply of U.S. Treasury securities. Members generally acknowledged that the U.S. elections will be a market focus for the remainder of the year, with most members expecting increased fiscal borrowing regardless of the election outcome, although a sharper rise if the same party controls both Congress and the Presidency.

  - Members viewed repo markets as functioning well, but noted seeing normal quarter-end pressures with rates at the top end of the range. Members noted they are starting to see a shift from ON RRP to sponsored repo. However, they remained supportive of the view expressed at the last few TMPG meetings that some market participants may prefer to retain use of the ON RRP facility, given the premium placed on the counterparty diversity when selecting investment vehicles.

- The next TMPG meeting is scheduled for September 24, from 3:00-5:00 PM.