TMPG Meeting Minutes

March 23, 2021

TMPG attendees

Alberto Antonini (Tudor)
Deborah Cunningham (Federated Hermes)
David Finkelstein (Annaly)
Doug Friedman (Tradeweb)
Kourtney Gibson (Loop)
Priya Misra (TD Securities)
Thomas Pluta (JP Morgan)
Murray Pozmanter (DTCC)
Jerry Pucci (BlackRock)
Rasmus Rueffer (ECB)
Ryan Sheftel (GTS)
Marc Seidner (PIMCO)
Casey Spezzano (NatWest)
Gemma Wright-Casparius (Vanguard)

New York Fed attendees

Chris Burke
Dan DeLuca
Frank Keane
Lorie Logan
Matt Milroy
Rania Perry
Matthew Raskin
Brett Rose
Janine Tramontana
Kyle Watson
Nate Wuerffel
Timothy Wessel
Patricia Zobel

U.S. Department of Treasury attendees

Fred Pietrangeli
Brian Smith
Nicholas Steele

Alternative Reference Rate Committee attendees

Thomas Wipf (Morgan Stanley)

- Due to the coronavirus pandemic, the TMPG meeting was held via videoconference.

- The TMPG meeting commenced with the chair of the Alternative Reference Rates Committee (ARRC) providing members with an update on LIBOR transition efforts. The chair of the ARRC walked members through the ARRC's recent progress report. He noted that despite the tremendous progress made in transitioning away from U.S. Dollar LIBOR, with nine months left to the end of 2021, it is critical that market participants actively take steps to support the transition using the tools available now. He concluded by highlighting the TMPG's previous work and best practice recommendations related to managing against and utilizing financial benchmarks. Specifically, that the TMPG considers it essential for market participants to have a thorough understanding of how any financial benchmark they use is constructed and the vulnerabilities that may exist in its usage, to choose ones that are compliant or consistent with IOSCO Principles for Financial Benchmarks, and to carefully evaluate whether the financial benchmarks they use are fit for the purpose for which they are being used.[1]

- The TMPG meeting then transitioned to a discussion of market developments since the February TMPG meeting. Members discussed the acceleration of yield increases since the last meeting, the degree to which MBS convexity hedging may have played a role in the yield increases, Treasury market conditions on February 25, and current conditions in funding markets with funding market rates at or near zero.
  - The TMPG member from TD Securities presented to the group on recent volatility in interest rate markets. She summarized several fundamental and technical factors behind the recent rise in yields. Members generally agreed that multiple factors have been behind the recent rise in yields, and several noted yields may to continue to rise given expectations for robust economic growth and higher Treasury supply. Members also noted that Treasury market liquidity conditions on February 25 deteriorated, and highlighted the risk that such episodes could occur again in the future. Some of the factors the group discussed included the expected continued increase in Treasury supply and various structural and other factors—including the expiration of the temporary SLR exemption—which, collectively, have created an environment where the market may be more prone to future shocks or more frequent episodes of wider bid-ask spreads and reduced market depth.
  - The TMPG member from Annaly then presented on the potential role that convexity hedging may have had in the recent rise in rates. He noted that while convexity hedging played a role in the recent increase in yields, the amount of convexity-hedging-related flows was significantly less than past episodes due to changes in the profile of mortgage investors over time and recent MBS pricing dynamics. However, he noted that a further sell-off in rates could see greater convexity hedging needs from the MBS community—which, if it occurred, would further exacerbate a rise in rates.
  - Members commented on the recent change to the Federal Reserve's overnight reverse repurchase agreement operational parameters.[2] Specifically, members were of the view that increasing the per-counterparty limit should bolster the Fed's capacity to floor rates. Several members noted that with funding market rates either at zero or approaching zero, market participants were still adjusting to the near-zero rate dynamics.

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[1] For a full list of TMPG best practices related to financial benchmarks please see the "Risk Management" section of the group's best practice recommendations, the group's webpage on financial benchmarks, and the group's three sample case studies on the use of financial benchmarks.

[2] For additional information please see the Desk statement on this topic.

- Following the discussion of market developments, New York Fed staff provided an overview of the February 24 disruption in Federal Reserve financial services, including Fedwire.[3] Staff noted that the root cause behind the disruption was identified quickly by staff and was not linked to a cybersecurity incident. Upon identifying the root cause, staff communicated updates with external market participants and extended daily deadlines while services were brought back online. Staff noted that this event underscored the importance of efficient and robust emergency communications procedures, and that they would continue building out communication tools to help bolster resiliency in the event of future disruptions.[4]

- Next, the chair of the TMPG repo clearing and settlement working group provided an update on progress made over the intermeeting period. The working group chair provided an overview of the group's efforts to map the clearing and settlement infrastructure for the core triparty repo market. The chair highlighted several initial risks identified by the group, including risks around: trade matching, vendor delays, collateral allocation, and collateral eligibility verification.[5] The chair noted that efforts were already underway to map the uncleared bilateral repo market and that she would report back to the group with an update once sufficient progress had been made.

- New York Fed staff then provided an update on progress with the TMPG data and transparency working group. Staff noted the working group is currently focused on creating an inventory of Treasury market futures data, which is expected to include data availability, data frequency, and data sources. After completing mapping for the futures market, the group will extend this work to Treasury cash and funding markets before assessing any cross-market takeaways.

- The next regularly scheduled TMPG meeting will take place on May 11, 2021, from 3:00-5:00 PM.

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[3] On Wednesday, February 24, 2021, the Federal Reserve experienced a disruption across financial services – including Fedwire® Funds, Fedwire® Securities, NSS, ACH, and Credit Risk – that lasted for approximately three hours, with service resuming at approximately 2:30 pm EST.

[4] The TMPG best practice recommendations address these types of outages: "Market participants should plan for a potential lack of access to service providers and critical trading venues as well as clearing and settlement services and manage the associated risk. Such preparations should include contingency plans given the loss of a key trading platform or market service provider."

[5] The TMPG has previously released recommendations on timely trade confirmation in the tri-party repo market, noting, among other recommendations: "All tri-party repo trades should be allocated, matched, and confirmed in a timely manner." Further TMPG discussion on tri-party can be found on the group's page dedicated to this topic.