TMPG Meeting Minutes

Date: March 28, 2023
Location: Federal Reserve Bank of New York

TMPG attendees

Alberto Antonini (Tudor)	Ari Kavour (Wells Fargo)	Jerry Pucci (BlackRock)
Richard Chambers (Goldman Sachs)	Laura Klimpel (DTCC)	Carsten Shwarting (Barclays)
Deborah Cunningham (Federated Hermes)	John Madziyire (Vanguard)	Rasmus Rueffer (ECB)
Sunil Cutinho (CME Group)	Edward McLaren (Bank of America)	Marc Seidner (PIMCO)
David Finkelstein (Annaly)	Priya Misra (TD Securities)	Casey Spezzano (NatWest)
Doug Friedman (Tradeweb)	Andrea Pfenning (BNYM)	

New York Fed attendees

Veronika Batista	Roberto Perli	Julie Remache
Frank Keane	Rania Perry	Brett Rose
Michelle Neal	Jenny Phan	Janine Tramontana
Dina Marchioni		

U.S. Department of Treasury attendees

Frederick Pietrangeli	Josh Frost

- The meeting commenced on an administrative note, with the Chair welcoming Roberto Perli of the Federal Reserve Bank of New York to his first TMPG meeting as SOMA Manager. Next, the TMPG Secretariat provided a brief status update on the preparations and timing of several new working groups. Consistent with the TMPG 2023 priorities agreed upon at the previous meeting, the new working groups focus on (i) non-centrally cleared bilateral repo risk management practices, (ii) pre-FICC open repo trades, and (iii) agency mortgage-backed securities market structure.[1] In addition, the secretariat provided the semiannual margining summary of forward agency MBS trades.

    - TMPG members had, on average, executed margining agreements with about 82 percent of their counterparties for the fourth quarter of 2022, and about 81 percent for the first quarter of 2023. These agreements covered approximately 97 percent and 96 percent of notional trading volume of forward settling MBS transactions (excluding those centrally cleared) for the respective periods. Margin exchange was operationalized for nearly 100 percent of these executed agreements for both quarters. The statistics for each period were in line with recent averages.

[1] See February-2023-TMPG-Meeting-Minutes (newyorkfed.org)

- As a follow-up to a conversation related to recent cybersecurity events at the previous TMPG meeting, members were asked to review the TMPG's existing Best Practices language related to risk management of cybersecurity and service provider outages. In particular, members highlighted the importance of practices regarding the use of robust change control processes, recognizing the risks from disruptions to critical service providers and vendors (including cyber risk), and planning for a potential lack of access to them.

- Members allocated additional time for an extended discussion of market developments since the February TMPG meeting given banking sector developments. The group discussed international and domestic banking developments, implications for the path of policy, counterparty and settlement risk management considerations, and market functioning and liquidity.

    - TMPG members discussed the recent banking dislocation as a significant shock to the market, noting heightened monitoring of potential related risks across multiple sectors. In particular, members focused on the accelerated movement of cash from bank deposits to money market funds as a result of the recent banking news.

        - Market participants noted that the Federal Reserve's Bank Term Funding Program (BTFP) was generally viewed as well designed. While this new facility was expected to help alleviate liquidity issues, some concerns remained about the implications of unrealized losses associated with hold-to-maturity (HTM) assets.

        - Looking ahead to expectations for future financial market developments, members noted close attention to the possibility of an increase in regulatory requirements.

    - Regarding developments in Europe, members discussed the possibility of a higher cost of capital for EU banks, due to the treatment of AT1 security holders in the resolution of Credit Suisse, leading banks to have to rely on more expensive alternatives to raise capital. At the same time, a member pointed out that AT1 contractual terms are not uniform and that, in the case of Credit Suisse, contractual terms were followed, with AT1 security holders subordinate to equity claims.

    - Members then discussed Federal Reserve policy expectations amid the continuously strong domestic labor market, persistent inflation, and banking concerns, with some highlighting the threshold for a pause in interest rate hikes may have decreased due to a reduction in bank credit supply.

    - The TMPG meeting concluded with a discussion on market functioning and liquidity in covered markets. In money markets, members were attentive to the notable dislocation and illiquidity observed in funding markets, driven by uncertainty regarding the path of policy. Liquidity conditions in Treasury and agency MBS markets were characterized as challenging, though members noted markets remain functioning. Higher illiquidity in Treasury markets was particularly evident in shorter-dated tenors and off-the-run securities, with market participants challenged to execute large positions or positions with long duration amid high policy uncertainty. In mortgage markets, members identified uncertainty around the FDIC’s plans for the agency MBS holdings as a key watchpoint, as well as implications of broader bank deleveraging.