TMPG Meeting Minutes

Date: May 14, 2024

Location: Annaly Capital Management, 1211 Avenue of the Americas

TMPG attendees

Alberto Antonini (Tudor Investment Corp)
Richard Chambers (Goldman Sachs)
Qing Chen (Morgan Stanley)
Debbie Cunningham (Federated Hermes)
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)
Edward McLaren (Bank of America)
Adam Nunes (Hudson River Trading)
Andrea Pfenning (BNY Mellon)
Gerald Pucci (BlackRock)
Marc Seidner (PIMCO)
Casey Spezzano (NatWest)

New York Fed attendees

Anirudh Arikarevula
Ellen Correia Golay
Caren Cox*
Frank Keane
Dina Marchioni*
Michelle Neal
Anna Nordstrom
Roberto Perli
Brett Rose
Janine Tramontana
Agata Zhang

U.S. Department of Treasury attendee

Brian Smith

Board of Governors attendee

David Bowman

SIFMA attendees*[1]

Charles De Simone
Robert Toomey

- SIFMA representatives provided an update on its U.S. Treasury Market Post-Trade Resiliency Planning work since the June 2023 TMPG meeting. SIFMA representatives outlined the recently finalized U.S. Fed Book-Entry Securities Settlement Resiliency Report[2], an industry playbook for use in a potential scenario in which the government securities clearing bank experiences a system outage extending overnight. The report, currently available to only SIFMA members, was designed to be agnostic to a range of market participant business models and contingent responses. SIFMA representatives highlighted a number of key considerations for market participants as they develop their own contingency plans such as liquidity, funding costs, market volatility, regulatory impacts, and contractual obligations. SIFMA representatives noted the report also details a range of actions market participants will need to take to respond to an outage. These actions include establishing a baseline state, developing an operational response, and planning for system restoration and post-outage activities. SIFMA representatives then discussed communication protocols for coordinating industry calls and sharing information between market participants, including financial market utilities, the clearing bank, and regulators. Member questions centered around SIFMA's plans for

[1] The starred attendees left the meeting following the U.S. Treasury Market Post-Trade Resiliency Planning update.
[2] Prepared by Pricewaterhouse Coopers L.L.P in conjunction with the U.S. Treasury Securities Settlement Working Group, and commissioned by SIFMA.

conducting industry tabletop exercises to increase familiarity as well as test the effectiveness of the industry playbook.

Members noted that recovery phase is unlikely to be immediate and suggested that future work consider a scenario in which a clearing bank's system outage lasts longer than one day. Members also saw scope for further work on industry playbooks for other critical financial market service providers. To conclude, members requested that the report be made broadly available to non-SIFMA members through publication.

- The TMPG Chair then led a discussion of TMPG's existing recommended Best Practices for Treasury, Agency Debt, and Agency Mortgage-Backed Securities Markets related to risk management around service providers, critical venues, and clearing and settlement services[3]. The Chair reminded members that reviewing that recommended guidance in light of recent cyber events was one of the TMPG's 2024 priorities, and asked members to consider if any modifications to the guidance were warranted. The discussion began with members highlighting a range of issues that emerged during recent cyber events, including limited knowledge of critical service and data providers, overreliance on the same backup liquidity service provider, poor communication, and inadequate appreciation of the time required for data validation, reconnection, and resumption plans. It was also noted that the level of preparedness to manage a cyber event greatly varies across critical service providers and those who rely on them and that updates to the TMPG best practices should be further studied.

  Member discussion identified several potential changes to the current best practice guidance and agreed that two other related best practices[4] should also be reviewed as part of the same exercise. In particular, members noted that guidance around contingency plans could include considerations of alternative liquidity sources and a more expansive range of service entities that can affect operational resilience, including data providers. Given the discussion, the Chair called for volunteers to study and propose potential updates to the existing guidance.

- A representative of the U.S. Treasury Department's Office of Debt Management gave an update on the U.S. Treasury's Buyback Program, including its objectives of liquidity support and cash management, and summarized the latest operational design parameters. The U.S. Treasury representative noted that Treasury plans to conduct liquidity support buybacks once a week across nine maturity buckets, with primary dealers and with a temporary limit of 20 CUSIPs in each operation. The representative noted that Treasury aims to be price sensitive and may buy back less than the announced maximum purchase amount. The first liquidity support buyback operation is tentatively scheduled for May 29, 2024. The representative emphasized that Treasury may revisit

[3] Risk Management, Best Practice # 13. Market participants should plan for a potential lack of access to service providers, critical trading venues, and 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.

[4] Risk Management, Best Practice # 11: Market participants should recognize that risk from any disruption that could have a systemic impact on service providers, critical venues, or clearing and settlement services—including "cyber risk" originating outside market participant firms—is a risk that the market holds jointly.
Internal Controls, Best Practice # 8: Market participants and trading venues should ensure that they employ a robust change control process for designing, testing, and introducing new trading technologies, algorithms, order types, or other potentially impactful system features or capabilities.

certain aspects of its buyback program from time to time to ensure it meets its liquidity support and cash management objectives.

- Next, one of the Co-Chairs of the **Non-Centrally Cleared Bilateral Repo Risk Management (NCCBR) Working Group** provided an update on the Group's progress. The Co-Chair presented the outline of the white paper on the non-centrally cleared bilateral repo risk management, which anticipates a careful review of margining practices across different repo segments, and requested member feedback. Members suggested that NCCBR white paper study any implications of SEC's expansion of central clearing for U.S. Treasury cash and repo transactions. Members thought a comparison of margining practices across buy-side and sell-side firms would also be helpful to consider. It was also noted that the TMPG Secretariat is following up with the NCCBR Questionnaire respondents on one of the questions regarding the size of the respondent firms' non-centrally cleared bilateral repo book, as the initial responses were not comparable.

- The meeting then transitioned to a discussion of market developments since the April TMPG meeting. The discussion primarily focused on members' views on the U.S. macro outlook, expectations for the path of the Fed policy and balance sheet, and current market conditions.

    - Members noted that, prior to the May FOMC meeting, there were continued signs of strong economic growth amid a streak of strong data releases, including payrolls, CPI, and retail sales print. Following the May FOMC meeting, yields declined sharply, along with the decline in volatility and MBS basis spread tightening, in response to the market interpreting Chair Powell's comments as downplaying the possibility of future U.S. interest rate hikes. Members generally articulated expectations for one or two U.S. interest rate cuts by the end of 2024, down from expectations for two interest rates cuts at the preceding TMPG meeting.
    - Members reported that the FOMC announcement to lower the Treasury redemption cap to $25 billion and keep the MBS redemption cap at $35 billion was generally well-received by market participants and did not cause any significant widening in swap spreads. Members generally agreed this would allow for a longer runway for QT, with many expecting run off to end in Q1 2025 and estimates for the size of the SOMA portfolio at the end of QT mostly ranged between $6-6.5 trillion.
    - Members generally expect the level of the ON RRP to remain stable, supporting the view expressed at the last TMPG meeting that some market participants prefer to use the ON RRP facility for operational and counterparty limit purposes. Members noted that maintaining minimum levels at the ON RRP facility by money funds would provide a liquidity buffer to absorb potential shocks.
    - In money markets, members expect demand for money market funds to remain robust in a higher for longer interest rate environment.

- The next TMPG meeting is scheduled for June 25, from 3:00-5:00 PM.