TMPG Meeting Minutes

Date: May 20, 2025
Location: Morgan Stanley, 1585 Broadway

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)
Adam Nunes (Hudson River Trading)
Marc Seidner (PIMCO)
Casey Spezzano (NatWest Markets)
Suzanne Sprague (CME Group)
Nathaniel Wuerffel (BNY)

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

Nicholas Chisholm

Board of Governors attendee

David Bowman

- The meeting commenced with a few administrative announcements. The Chair congratulated current ex-officio member, Anna Nordstrom of the New York Fed, on her new role as Head of the Markets Group. The Chair then welcomed new member, Nate Wuerffel of BNY, to the TMPG. A New York Fed representative thanked departing ex-officio member, Janine Tramontana, for her many years of service to the TMPG.

- A representative of the U.S. Treasury Department highlighted a recent presentation on the effects of the debt limit on financial markets by the Treasury Borrowing Advisory Committee (TBAC) as a useful resource. The representative summarized the three alternative approaches to the debt limit outlined in a report published by the U.S. Government Accountability Office and noted the TBAC's preference for eliminating the debt limit and allowing the U.S. Treasury to borrow funds as needed for authorized spending.

- Following the administrative announcements, members proceeded with an update on the U.S. Treasury repo risk management efforts since the previous TMPG meeting. The Chair provided an overview of public outreach initiatives conducted through social media and drop-in calls to raise awareness of the TMPG consultative white paper and proposed best practice recommendations for the U.S. Treasury repo risk management. It was noted that both calls were attended by approximately 160 market participants across a wide range of firms, including banks, dealers, asset managers, hedge funds, financial market utilities, other foreign central banks, and trade associations. It was noted that the TMPG members provided attendees with an overview of the Group's recent work and answered attendee questions that centered around recommended haircut levels and legal documentation.

- It was noted that the revisions to the proposals reflected feedback received, including a greater emphasis on risk management techniques other than haircuts, a lengthy recommended implementation timeline, and additional clarity on legal agreements and other documentation.[1] Members discussed and agreed to updates to the recommended best practices, white paper, and frequently asked questions to reflect feedback received. It was noted that an extended recommended implementation period was appropriate, given the demands on firms in light of the Securities and Exchange Commission's rules expanding central clearing in the U.S. Treasury market.

- Members then agreed to move forward with a press release announcing these updates would be published with the final TMPG white paper *Non-Centrally Cleared Bilateral Repo and Indirect Clearing in the U.S. Treasury Market: Focus on Margining Practices*, *the Recommended Best Practices for Treasury Repo Risk Management*, *the Frequently Asked Questions (FAQ): Treasury Repurchase Agreement Risk Management*, and the revised comprehensive recommended *Best Practices for Treasury, Agency Debt, and Agency Mortgage-Backed Securities Markets*.

- One of the Co-Chairs of the Agency Mortgage-Backed Securities (MBS) Working Group provided an update on the new working group's progress. The Co-Chair noted the group had met to discuss an approach for assessing the current structure of the agency MBS market including origination, securitization, trading, identifying risk and resiliency issues, and potential areas of further study.

- The TMPG then discussed market developments since the April TMPG meeting, including the U.S. economic outlook, member expectations for the path of the policy rate, Treasury market functioning, and money market conditions.

  U.S. Economic Outlook and Expectations for the Path of Policy Rate

  - Members were attentive to the significant market reaction following the April 2nd tariff announcements and to the partial market recovery following the subsequent de-escalation. While members highlighted the more recent improvement in risk assets and the economic outlook since the de-escalation, relative to early April, they characterized the iterative nature of the policy process as continuing to contribute to a highly uncertain environment.
  - Members also noted some market expectations for a stagflationary shock, but they were attentive to added economic uncertainty from an ongoing divergence between soft data and hard data. Members were attentive to Moody's downgrade of the U.S. Government.
  - Members generally expect the Federal Reserve's current wait-and-see approach to persist for the near future amid uncertainty around the implications for the outlook for inflation and growth. Some members expressed expectations that the Fed may be more focused on a near-term acceleration in inflation, due to tariffs, and risks of an un-anchoring of inflation expectations, due to inventory stocking behavior. It was noted that interest rate futures reflect an expectation for the Federal Reserve to implement two U.S. interest rate cuts this year and two next year.

[1] The TMPG received feedback on the TMPG Treasury repo risk management work, including comment letters from SIFMA, SIFMA Asset Management Group, the Managed Funds Association, and the Alternative Investment Management Association.

Treasury Market Functioning

- Members were attentive to the significant deterioration in cross-market volatility following the April 2nd tariff announcements, noting volatility reached its worst levels over the intermeeting period on the afternoon of April 8th. However, members highlighted that different asset classes and markets exhibited varying degrees of deterioration. Members noted that swap spreads were at the center of the volatility given the crowdedness of positions and had experienced the most deterioration in volatility and market functioning. Members viewed volatility in off-the run U.S. Treasuries and basis trades as second to swaps spreads, but noted a quick alleviation over a 24-hour period following the 90-day pause on tariff implementation.
- Members emphasized the high volatility and selloff in April, noting foreign selling of U.S. Treasuries was not a primary driver, contrary to some prior market speculation. Instead, members generally characterized the moves as reflecting a previous overweight of U.S. Treasuries and broader U.S. assets, which then unraveled amid elevated market fragility.
- With respect to Treasury market functioning themes going forward, members expect to see some liquidity constraints around Q3 and Q4 of this year amid a Treasury General Account rebuild. Members opined that an amendment to Supplementary Leverage Ratio and G-SIB surcharge could reduce the cost of holding U.S. Treasuries on dealer balance sheets. They also expect the outlook on the fiscal front to be an important watchpoint for market liquidity and functioning.

Money Market Conditions

- Members characterized funding markets around April month-end as being generally stable, though Secured Overnight Financing Rate (SOFR) was elevated beyond typical month-end levels. Members also discussed the addition of daily morning Standing Repo Facility (SRF) operations, intended to enhance the effectiveness of the SRF, and broadly viewed them as beneficial for funding markets. Members observed that the additional SRF operations help address the hurdle of intraday repo costs, and in the past have also helped to calm markets around periods of quarter-end stress. However, some members pointed to SRF's relatively limited eligibility across counterparties and the lack of central clearing for SRF as constraining factors to its effectiveness.

− The next TMPG meeting is scheduled for June 24, 2025, from 3:00-5:00 PM.