TMPG Meeting Minutes

Date: October 22, 2024

Location: CME Group, 300 Vesey Street

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)
Laura Klimpel (DTCC)
Serena Lin (Mizuho Securities)
Edward McLaren (Bank of America)
Adam Nunes (Hudson River Trading)
Andrea Pfenning (BNY)
Gerald Pucci (BlackRock)
Marc Sneider (PIMCO)
Casey Spezzano (NatWest Markets)
Suzanne Sprague (CME Group)

New York Fed attendees

Anirudh Arikarevula
Adam Copeland
Ellen Correia Golay
Frank Keane
Vinuthna Kovvuri
Eric Lewin
Anna Nordstrom
Roberto Perli
Brett Rose
Agata Zhang

U.S. Department of Treasury attendee

Brian Smith

Board of Governors attendee

David Bowman

- The meeting commenced with several administrative items. The Chair recognized the many contributions of departing member Sunil Cutinho of CME Group and welcomed new TMPG member Suzanne Sprague of CME Group. A New York Fed representative then thanked Anirudh Arikarevula for his contributions to the TMPG Secretariat staff, and welcomed Vinuthna Kovvuri to the role.

- Another New York Fed representative provided a brief overview of the Reference Rate Use Committee (RRUC), a New York Fed sponsored group that was recently established to support the integrity, efficiency, and resiliency in the use of benchmark interest reference rates across financial markets. The representative noted there may be future opportunities for collaboration between the TMPG and the RRUC on shared initiatives, and cited the TMPG's past work on the use of financial benchmarks in TMPG-covered markets.

- The TMPG Secretariat provided the semiannual margining summary of forward settling agency mortgage-backed securities (MBS) trades. Over the six-month period ending September 15, 2024, TMPG member firms had, on average, executed margining agreements with about 87 percent of their counterparties in Q2 2024, and about 91 percent in Q3 2024. These agreements covered approximately 99 percent and 90 percent of notional trading volume of forward settling MBS transactions (excluding those centrally cleared) for the respective periods. Margin exchange was operationalized roughly 99 and 88 percent of these executed agreements for both quarters. The statistics for each period were in line compared with recent averages.

- A representative of the U.S. Treasury Department's Office of Debt Management reviewed the results from the Treasury's buyback program since its launch in May. Over the period between May 29 and October 16, 2024, Treasury purchased $31.2 billion of securities across 20 liquidity support buyback operations, and $20 billion of securities across four cash management buyback operations. Operations in the "1Mo-2Y" sector received the most offers. Finally, the representative noted that Treasury will continue to study the results in an effort to assess the program's overall impact and provide insights for future enhancements.

- A New York Fed representative highlighted key themes that emerged from the 2024 U.S. Treasury Market Conference held in September. Conference themes included the Treasury market's evolving structure, the official sector's progress in enhancing Treasury market resiliency, and the remaining challenges ahead – including determining the implementation details around expanding central clearing and identifying how expected increases in Treasury supply over coming years may be absorbed by the market. The representative also highlighted the recent publication of the 2024 Inter-Agency Working Group for Treasury Market Surveillance (IAWG) Staff Progress Report, which covers many of these topics.

- Members then discussed existing barriers to "done-away" clearing[1] in the Treasury market, given the fast-approaching regulatory deadlines for central clearing. Members strongly agreed that determining appropriate accounting treatment for "done-away" trades is a main consideration for intermediaries to determine the costs to offering done-away to customers. Members noted that many in the market expect large dealers, that are also registered as futures commission merchants, to take a lead in this area. Members also highlighted issues around netting benefits, potential future concentration in intermediaries, and dealer balance sheet capacity as important considerations for determining how to expand central clearing.

- Members then transitioned to the **Non-Centrally Cleared Bilateral Repo (NCCBR) Working Group** update. A New York Fed representative covered recent updates to the draft NCCBR white paper, noting further refinement is currently in progress. Then, one of the NCCBR Working Group's Co-Chairs highlighted a key issue raised during the working group discussion. The issue focused on the question of whether there is a common market practice regarding which party to an uncleared repo is typically charged an initial haircut. It was noted that market practice currently varies: in certain situations, the obligation to pay a haircut falls to a cash borrower, while in other cases, it may be the less creditworthy counterparty. It was also noted that, in a collateral or bond-driven transaction, a common practice is for a collateral borrower to be charged a haircut. The Co-Chair requested that TMPG members share the draft white paper within their respective firms for review and additional feedback.

- The **Operational Resiliency Working Group's Co-Chair** then provided an update**.** The Co-Chair noted that, over the TMPG intermeeting period, the working group laid out a framework for reviewing the best practices related to operational resiliency, and made preliminary observations on potential gaps in the best practice recommendations related to internal controls and risk management around key service providers, critical venues, and clearing and settlement services in light of recent cybersecurity events and widespread IT disruptions. The Co-Chair noted that, while no meaningful

[1] In a "done-away" model, repo trade execution and central clearing intermediation are provided by different firms.

gaps were identified in the group's existing recommended best practices, the current guidance could potentially benefit from some updates and additional clarity. The Co-Chair noted the Working Group is in the process of drafting clarification to several existing practices, which will be shared with the TMPG for input.

- The TMPG then turned to a discussion of market developments since the September TMPG meeting. Members discussed their reactions to the recent quarter-end volatility in repo markets, shared thoughts on the U.S. macroeconomic outlook and expectations for the path of the Fed's policy rate, and concluded with views on China's policy measures aimed at supporting economic growth and combatting persistent deflationary pressures.

  Repo Markets Quarter-End Dynamics

  - Overall, members agreed that the recent quarter-end repo market volatility was a result of dealer balance sheet constraints, calendar effects, and large gross U.S. Treasury securities settlements, rather than a shortage of bank reserves, noting similar dynamics are likely to occur during future quarter ends. Members were not overly surprised by the Fed's Standing Repo Facility usage of $2.6 billion, which in the context of the repo rate increases on quarter end, was viewed as fairly minimal.
  - Members were also attentive to agency MBS repo markets, which experienced heightened pressure compared to U.S. Treasuries. This was viewed as attributed to greater concentration of participants in the agency MBS market, increased ownership of agency MBS by the levered community, Liquidity Coverage Ratio constraints, and prepayment risk making agency MBS more sensitive to funding pressures. Members also pointed to heightened stress in dollar roll markets, with premium coupons trading at somewhat distressed levels relative to funding costs.

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

  - Members were highly attentive to a series of strong economic data recently and its impact on U.S. macro-outlook, that has resulted in market expectations for shallower U.S. interest rate reductions than previously expected. Members generally agreed that the market sentiment has shifted towards a soft landing or no landing scenario, given upward revisions in gross domestic product, robust payrolls, strong retail sales, and inflation remaining in line with expectations. Nevertheless, members expressed some concerns about the reliability of the upcoming Employment Situation Report, noting that it is likely to be affected by external factors, such as recent labor strikes and hurricanes, which in turn may introduce more noise into the data.
  - Members noted that the market has repriced significantly less policy easing in recent weeks, with the implied interest rate for year-end 2024 moving up by 30 basis points (bps) and the terminal interest rate increasing by 60 bps by year-end 2025. Members largely attributed the movements in rates to recent economic data, the market reaction to the Fed's latest U.S. interest rate cut of 50 bps, and the political uncertainty surrounding the upcoming U.S. presidential election.

  China's Stimulus Measures

  - Members generally viewed the combined fiscal and monetary measures announced by Chinese authorities as providing support to the real estate and equity markets. Members also noted significant headwinds to Chinese growth – mainly housing overhang – which is further complicated by a shrinking population, a web of cross-debts involving local governments, and a volatile and underperforming equity market. With the upcoming U.S. presidential election on the horizon, a shift in trade and tariff policies could negatively affect China's growth prospects and increase current economic policy challenges, which could pose a drag on global growth.

- The next TMPG meeting is scheduled for December 3, 2024 from 3:00-5:00 PM.