TMPG Meeting Minutes

September 24, 2019

TMPG attendees

Alberto Antonini (Tudor) Deirdre Dunn (Citigroup) Kourtney Gibson (Loop Capital) Beth Hammack (Goldman Sachs) Rob Huntington (Credit Suisse) Gary Kain (AGNC Investment Corp) Ari Kavour (Wells Fargo) Edward McLaren (Bank of America) Andrea Pfenning (BNY Mellon) Murray Pozmanter (DTCC)

Jerry Pucci (BlackRock) Rasmus Rueffer (ECB) Marc Seidner (PIMCO) Ryan Sheftel (GTS) Gemma Wright-Casparius (Vanguard)

FRBNY attendees

Joshua Jones Frank Keane Lorie Logan Matt Milroy Anna Nordstrom Rania Perry Brett Rose Janine Tramontana

Kyle Watson Nate Wuerffel

Foreign Exchange Committee attendees Yudhveer Chaudhry (BlackRock)

U.S. Department of Treasury attendees Fred Pietrangeli Brian Smith

- The meeting commenced with the Chair welcoming a member from the Foreign Exchange <u>Committee</u> (FXC) to the meeting as a guest to provide an update on the FXC's recent activity. The FXC member provided an overview of <u>Principal 17</u> in the Global Foreign Exchange Committee's <u>Global Code</u>, which covers "last look." It was noted that last look is defined in the code as a practice utilized in electronic trading activities whereby a market participant receiving a trade request has a final opportunity to accept or reject the request against its quoted price. The FXC member discussed the Global Code's conclusion on the use of last look: that market participants employing last look should be transparent regarding its use and provide appropriate disclosures to clients. Following the discussion, the FXC member left the meeting.
- Next, TMPG members briefly discussed whether last look or other trading protocols warranted additional focus from the TMPG. Members decided they would conduct an environmental scan of trading protocols relevant to the TMPG-covered markets ahead of the November TMPG meeting and be prepared to discuss whether the TMPG should pursue further work in the area.
- The Chair noted that members had reviewed the 2013 TMPG white paper on "<u>Operational Plans</u> for Various Contingencies for Treasury Debt Payments" and determined that no changes to the paper are warranted. Furthermore, the conclusion of the members was that the document remains a relevant technical reference on some of the trading, clearing, settlement, and other operational challenges that might arise in the unlikely event of a delayed payment on Treasury debt. In addition, members <u>reiterated</u> their concern that a delayed payment on Treasury debt,

even if only temporary, would cause significant damage to and undermine confidence in the markets for Treasury securities and other assets.¹

- Next, the Chair provided a summary of a meeting in mid-August between members of the TMPG's working group on clearing and settlement and members of the U.S. Treasury, Federal Reserve Bank of New York, Federal Reserve Board of Governors, Securities and Exchange Commission, and Commodity Futures Trading Commission (collectively, the Inter-Agency Working Group for Treasury Market Surveillance or "IAWG"). It was noted that TMPG members provided IAWG members with a summary of the recently published <u>Best Practice Guidance</u> and <u>white paper</u> on clearing and settlement. IAWG members commended the TMPG members for their work on this topic and encouraged the TMPG to consider the feasibility of similar work in the future on funding markets.
- FRBNY staff then provided a summary of the fifth annual <u>U.S. Treasury Market Conference</u>, which took place the prior day, September 23, 2019. It was noted that topics discussed at the conference included an update on the LIBOR transition, the potential for Treasury issuance of Secured Overnight Financing Rate (SOFR)-linked floating-rate notes, greater transparency around Treasury transactions volumes via TRACE, the evolution of direct streaming and implications for Treasury market structure, risk management strategies, and discussion of regulation and oversight of the Treasury market.
- The TMPG then turned to a discussion of recent market developments. Members discussed volatility in funding markets that occurred throughout the week of September 16, 2019, and the announcements of overnight and term repo operations by the Federal Reserve Bank of New York.² Members offered views on a wide range of possible causes of the recent volatility, which included: corporate tax payments, net Treasury settlements, the level of reserves, overall Treasury supply, and the shape of the yield curve. Members also discussed differences between the recent episode and prior periods of volatility, and the implications for potential future volatility. Members noted that actions by the FRBNY helped stabilize funding markets as the dispersion of rates narrowed and the level of rates decreased relative to other benchmarks. TMPG members noted that it may be beneficial for the group to consider whether to extend the work the group recently concluded on clearing and settlement to the funding markets for Treasury securities.
- In addition, members discussed the launch of <u>Tradeweb ICE U.S. Treasury Closing Prices</u>, which members noted related to TMPG's <u>previous work</u> on benchmarks. Members agreed to invite

¹ The TMPG's 2013 work discusses certain potential practices that could reduce but not eliminate the operational difficulties posed by a delayed payment on Treasury debt. The group most recently discussed this White Paper on <u>September 21, 2015</u>.

² Federal Reserve Bank of New York, <u>Statement Regarding Repurchase Operations</u>, September 20, 2019.

representatives from Tradeweb to discuss this development at an upcoming TMPG meeting.

- The market developments agenda item concluded with a discussion on recent reports issued by the <u>Treasury Department</u> and <u>Department of Housing and Urban Development</u> related to Fannie Mae and Freddie Mac. Members noted that the announcement generated limited reaction in secondary agency MBS markets.
- Finally, the Chair summarized findings of the TMPG's exploratory working group on business continuity and resiliency in the TMPG-covered markets, which was discussed at the June TMPG meeting. The TMPG determined that it should continue to pursue this topic and will establish a working group on it. It was noted that the working group's first objective should be to identify a specific area of focus amid the landscape of business continuity and resiliency.
- The next TMPG meeting is scheduled to take place on November 6, 2019, from 3:00-5:00 PM.