TMPG Meeting Minutes

September 3, 2020

TMPG attendees

Alberto Antonini (Tudor)	Chris Leonard (Barclays)	Rasmus Rueffer (ECB)
Deborah Cunningham (Federated)	Edward McLaren (Bank of America)	Marc Seidner (PIMCO)
David Finkelstein (Annaly)	Priya Misra (TD Securities)	Ryan Sheftel (GTS)
Doug Friedman (Tradeweb)	Andrea Pfenning (BNY Mellon)	Casey Spezzano (NatWest)
Kourtney Gibson (Loop)	Thomas Pluta (JP Morgan)	Gemma Wright-Casparius (Vanguard)
Rob Huntington (Credit Suisse)	Murray Pozmanter (DTCC)	
Ari Kavour (Wells Fargo)	Jerry Pucci (BlackRock)	

New York Fed attendees

Lorie Logan	Matthew Raskin	Kyle Watson
Matt Milroy	Brett Rose	Nate Wuerffel
Rania Perry	Benjamin Snodgrass	

U.S. Department of Treasury attendees

Kipp Kranbuhl	Nicholas Steele	Brian Smith

- Due to the coronavirus pandemic, the TMPG meeting was held via videoconference.

- The meeting commenced with the chair welcoming Casey Spezzano from NatWest Markets Securities and Priya Misra from TD Securities to the group. A New York Fed representative then announced that Ms. Spezzano had been selected to serve as the group's vice chair for a term of two years, which may be extended. It was noted that the vice chair role is intended to assist the chair and, in absence of the chair, temporarily assume the chair's responsibilities. The representative then reminded members of the upcoming 2020 U.S. Treasury Market conference, co-sponsored by the Treasury Department, Federal Reserve Board, New York Fed, SEC, and CFTC. It was noted that this year's event would focus on recent developments in the Treasury market, including the impact of the COVID-19 crisis.

- The TMPG meeting then transitioned to a discussion of recent market developments.
    - This discussion began with an overview of the recent update to the Federal Open Market Committee (FOMC)'s Statement on Longer-Run Goals and Monetary Policy Strategy, which articulates the FOMC's approach to monetary policy and serves as the foundation for its policy actions. This updated statement is the outcome of the FOMC's Review of Monetary Policy Strategy, Tools, and Communications. It was noted that the

update reflects changing features of the economy over the past decade and how policymakers are taking these changes into account in conducting monetary policy. Members were provided an overview of the more significant changes to the document, including changes related to maximum employment and price stability as well as to the strategy statement.

- In discussion, members primarily focused on the changes to language around price stability, in which the FOMC adjusted its strategy for achieving its longer-run inflation goal of 2 percent by noting that it "seeks to achieve inflation that averages 2 percent over time." Members noted that this change, and the framework review outcome more broadly, were in line with market expectations. Relatedly, members suggested that the increase in breakeven measures of inflation compensation over recent months could largely be attributed to expectations around the framework review and, more specifically, the announcement of flexible average inflation targeting. Looking ahead to the September FOMC meeting, several members noted growing expectations for an announcement of strengthened forward guidance or a modification to the Federal Reserve's asset purchase programs.

o The market developments discussion also covered risks for the remainder of 2020. It was noted that that implied cross-asset volatility for the month of November was significantly elevated relative to historical norms as risks surrounding the U.S. election remained squarely in focus. Election risks, the ongoing global health crisis, and the upcoming fiscal year-end were all noted as contributing to balance sheet pressures, with members noting that balance sheet availability is expected to remain constrained over the coming months.

o Finally, members broadly agreed that the Federal Reserve facilities had stabilized market functioning. Even facilities with low take-up relative to maximum capacity were cited as contributing to market calmness and orderly functioning. Members recommended keeping these facilities in place at least until a vaccine is widely available and uncertainty around the global health pandemic has subsided.

– Members then shifted the focus to drivers of and lessons learned from the period of elevated volatility in TMPG-covered markets earlier in the year. Members also discussed areas in their respective markets that could potentially be made more resilient through TMPG efforts.

o In discussing lessons learned, members broadly agreed with takeaways from the working document discussed at the June TMPG meeting. Members continued to highlight that no single driver was behind the periods of volatility and illiquidity seen in

March and April, while noting that they continue to refine their views on the broad categories of drivers related to both market structure and market practices. A number of members suggested that capacity constraints for financial intermediaries in particular contributed to the volatility and deterioration in market functioning. In addition to intermediation, members opined that regulation, trading conventions, and margining practices all played a role in exacerbating volatility experienced earlier this year.

- Members then expressed several potential areas to explore for improving market functioning in the TMPG-covered markets in future times of stress. Members agreed that some of the areas identified could be in scope for the TMPG, whereas others may be more appropriate for the official sector. Member suggestions included:
  - <u>Features of market structure or functioning</u>: Members recommended exploring the potential roles of exchanges or central clearing as a way to enhance resiliency, especially in times of market stress. Additionally, members noted that financing and settlement practices could be reexamined, especially as they relate to the pricing and movement of collateral. One member recommended exploring the use and best practices around Exchange Traded Funds (ETFs) containing securities from TMPG-covered markets.
  - <u>Aspects of intermediation</u>: Several members suggested a continued discussion of the impact from Supplementary Leverage Ratio and other regulatory requirements, which members viewed as playing a role in reducing the capacity of banks and broker-dealers to intermediate. An area identified for potential official sector exploration was the alignment of fiscal quarter- and year-end dates by major banks, which can cause pressures as balance sheet availability fluctuates ahead of these generally shared key dates.
  - <u>Data or systems availability</u>: Members noted that data availability and information reporting has been helpful for the market at large, and that any further efforts to expand on these fronts would be beneficial. One member noted that expanded TRACE reporting efforts over recent years have played a key role in stabilizing the market and expressed interest in the future availability of additional data.
  - <u>Practices of market participants in times of stress</u>: One member suggested reexamining the efficacy and appropriateness of the TMPG best practice recommendations around margining forward-settling agency MBS transactions.
  - <u>Contingency planning</u>: Several members discussed the importance of prudent contingency planning in order to enhance overall market resiliency. Specifically, members highlighted the importance of diverse cross-market contingency plans whereby firms do not have a homogenous approach to major risk events, such

as the current global pandemic, which generally resulted in a large one-time shift to a work-from-home environment.

   - Risk management and trading practices: Reexamining risk management practices, especially under times of stress, was highlighted as an area where individual firms could improve going forward.

- Next, members discussed two TMPG member surveys conducted by the New York Fed secretariat over the TMPG intermeeting period. The first survey related to a planned change in timing for pricing of the Bloomberg Barclays U.S. fixed income index, which would move from 3 PM to 4 PM ET. Members were asked to provide views on the impacts of the change as they relate to TMPG best practice recommendations. The survey results found that members generally view the operational impact from this change as modest, and most are already prepared for the change to go into effect.

- The second survey was a follow-up to the discussion at the June meeting regarding the TMPG's fails charge best practice recommendations with respect to agency CMBS as well as Treasury securities transactions settling outside the U.S. In the survey results, members reported a mixed approach to collecting fails charges for transactions both in agency CMBS and, separately, in Treasury securities settling outside the U.S. While respondents noted that trading volumes and fail levels in both markets were small relative to the agency MBS and onshore Treasury markets, respectively, the group agreed that further clarity in published TMPG guidance might be warranted. As a next step, it was agreed that a working group would review the TMPG Fails FAQs and evaluate recommendations for the committee's consideration at a future meeting.

- The next regularly scheduled TMPG meeting will take place on October 13, 2020, from 3:00-5:00 PM.