**Opening Remarks**

**Treasury Market Best Practices Conference**

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## Opening Remarks

Welcome—the fact that all of you are taking time from your day-to-day responsibilities and attending this conference speaks well for the shared interest of the private and public sector in keeping the US Treasury market the deepest, most liquid, and efficient bond market in the world.

Before I introduce our next two speakers, Anthony Ryan, the Assistant Secretary of the Treasury for Financial Markets and Tom Wipf, managing director at Morgan Stanley and the chairman of the Treasury Market Practices Group, let me—very briefly—share a few thoughts about what we are trying to achieve and the role of the Federal Reserve Bank of New York as part of this process.

As always, my comments represent my own views and opinions and do not necessarily reflect the views of the Federal Reserve Bank of New York or of the Federal Reserve System.

First, the goal of public and private participants is a common one—to ensure that the standard of excellence that characterizes the U.S. Treasury market endures.

Second, I believe that there is also agreement about the best way to achieve this goal—faced with the choice between heavy-handed regulation that could damage the Treasury market or a lighter touch—in which market participants enforce a standard of "best practices"—the latter approach seems much more appropriate.

But for the latter approach to work, the private sector has to do its job—ensure that best practices are developed and that these standards are broadly accepted and used throughout the marketplace.

In my view, the work of the Treasury Market Practices Group has been exemplary in spelling out—in detail—best practices both in terms of trading and in terms of maintaining appropriate supervisory and compliance oversight.

That said, the work of the Treasury Market Practices Group is by no means finished. Continued study and discussion is likely to lead to greater consensus and more insight into what practices are desirable. As market conditions change, best practices will evolve over time.

Moreover, it is important to recognize that the Treasury Market Best Practices document that will be discussed today is not intended to be complete or definitive. Instead, it is a guide, offering general principles that, if followed, should support market efficiency and liquidity.

Not surprisingly, the document has prompted many questions. What behaviors are acceptable? For example, how far can one go in amassing large positions? During times of market dislocation, what are the responsibilities of both the buyers and sellers?

Such questions should be asked and I hope that they are asked and discussed today. But it is not the role of the Federal Reserve or the U.S. Treasury or even of a group of market participants operating under the banner of the TMPG to provide the answers. The most appropriate answers to such questions are likely to be developed by the private sector. Best practice guidance should be applied to the circumstances of a particular firm, market conditions, and trading positions. These are the types of questions that a firm's repo and Treasury traders must grapple with, as well as the desk heads and those higher up in the chain of command. Those responsible for providing the compliance and supervisory oversight also have an important role to play in coming up with appropriate answers.

Some have suggested that definitive rules would make it easier to answer internal questions about what market practices are acceptable versus those that are not. In my view, the types of definitive answers that people may desire—whether from the Fed or the TMPG or some other source—are often not feasible for three reasons.

First, the market is dynamic. The answers that might be appropriate today, might not be appropriate under different circumstances that might apply tomorrow.

Second, each circumstance is different and it is not really feasible for an outside observer to specify completely all the parameters necessary to reach a definitive judgment. In fact, if we tried to do that we would run the very real risk of reducing, rather than enhancing market efficiency.

Third, "bright line" boundaries may unintentionally encourage inappropriate behavior. Going right up to the margins of the "bright lines" or finding ways of complying with the letter of the "bright line" but not the spirit, are not behaviors that will help keep the Treasury market deeply liquid and efficient.

So how should private firms respond to the TMPG document? Rather than attempt a definitive response, instead let me make a few suggestions.

First, read it, digest it, internalize it. This is the most important guidance I could give market participants. In other words, focus more attention on the intent and the principles espoused in the document—the goal or outcome that is desired—a competitive, efficient, liquid, and dynamic Treasury market—than in trying to parse the precise intent of language. This is neither a legal nor a regulatory document, instead it is a guide to best practice principles that are designed to support the efficiency of the Treasury market.

Second, recognize that maintaining a deep and liquid Treasury market is in all of our interests. The best way to ensure such an outcome is to have market participants behave—broadly defined—in a way consistent with best industry practices.

Third, recognize that if market participants are unable to behave in an appropriate way consistent with the goal of maintaining a deep and liquid Treasury market, such an outcome could provoke a regulatory response at a later stage. Such an outcome would risk being a lose/lose situation for both regulators and market participants relative to what is achievable with a more flexible “best practices”, principles-based approach.

What is the role of the Federal Reserve Bank of New York in this process? First, we have played a major role in establishing the Treasury Market Practices Group and assist and support the group in its efforts.

Second, we will continue to reach out to market participants and industry groups to seek out and understand their perspectives. We do want to hear from you and this conference is one forum for that interchange of ideas and perspectives.

Third, we will continue to exercise our oversight responsibilities in monitoring developments in the Treasury market and understanding unusual patterns of activity. This means assessing market conditions, talking to market participants when appropriate—sometimes simply to understand market dynamics, at other times, to explore whether market behaviors have been fully consistent with “best practices”.

In terms of how we perform our monitoring function, let me assure you about two things. First, we strive for consistency in our response and equitable treatment of both dealers and non-dealers.

Second, our response to market conditions will be measured—remembering that we share the goal of preserving a deep, liquid, and efficient Treasury market.

In this regard, it is important that you do not overreact as we fulfill our monitoring responsibilities. A conversation about what is happening in the Treasury market does not necessarily signal a yellow or red light in terms of particular activities or behaviors. As an institution, we engage in these types of conversations as a routine matter—not only with primary dealers, but with other Treasury market participants. We may just want to understand the market dynamics better.

We want people in the market to engage in “best practices”. This means that market participants should not withdraw from the market or reduce their participation in the marketplace just because we are doing our job—monitoring market activity and, at times, asking questions.

Before introducing our next speaker, I want to briefly outline the ground rules for questions today. To keep to our timetable, I ask that you hold questions for Tony Ryan, Tom Wipf, and me until after the first panel discussion. At that time, you will have the opportunity to question us, the first panel or TMPG members. If you prefer, you may write down your questions on a card or you can raise your hand. The panel moderators will respond first to the written questions and then take questions from the audience.

Turning now to our next speaker, I would like to introduce Anthony Ryan, the Assistant Secretary of the Treasury for Financial Markets. As way of background, Tony was sworn in as Assistant Secretary in December 2006. In his role, he acts as a senior adviser to the Treasury Secretary. His responsibilities include the issues of Treasury financing, public debt management and federal regulation of financial markets and he oversees the Office of Debt Management and the Office of Government Financial Policy. He is also the senior member to the Treasury Financing Group and coordinates the President's Working Group on Financial Markets. Before joining the Treasury Department, he spent 20 years in the financial industry, with his most recent position as partner of Grantham, Mayo, van Otterloo and Company. Please join me in welcoming, Tony Ryan.

Tom Wipf is our next speaker. In addition to his day job at Morgan Stanley as head of the Global Financing Desk, Tom is heavily engaged in his own sort of public service—he is very active in the industry. In addition to his role as head of the TMPG, he has participated in many other industry groups, including being a member of the Board of Directors of the Bond Market Association and chairing the Funding Division of the SIFMA, where he is currently a member of that division's Executive Committee. The list of his activities past and present goes on and on. So rather than an exhaustive recitation, let me just conclude by saying how pleased I am that he is chairing the TMPG and pleased that we have him here today to discuss the role of the TMPG in promoting best practices in the Treasury market.

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