TMPG Meeting Minutes

May 11, 2021

<u>TMPG attendees</u>

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

<u>New York Fed attendees</u>

Michael Fleming
Frank Keane
Lorie Logan
Matt Milroy
Rania Perry
Matthew Raskin
Brett Rose
Janine Tramontana
Or Shachar
Kyle Watson
Nate Wuerffel
Patricia Zobel

<u>U.S. Department of Treasury attendees</u>

Joshua Frost
Fred Pietrangeli
Brian Smith
Nicholas Steele

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

- The meeting commenced with the Chair welcoming Carolyn Sargent from Morgan Stanley and Deland Kamanga from Bank of Montreal to the group. The Chair then thanked departing member Rob Huntington from Credit Suisse for his many contributions to the TMPG. Finally, the Chair requested that members review the 2013 TMPG white paper on "Operational Plans for Various Contingencies for Treasury Debt Payments" and convey views to the New York Fed Secretariat on whether any updates should be considered. It was noted that this white paper was similarly reviewed in advance of the debt ceiling legislative deadline in 2019 to determine if any updates were appropriate, and that the review at that time did not result in any updates.

- The TMPG meeting then transitioned to a discussion of market developments since the March TMPG meeting. Members discussed the recent stabilization in Treasury yields, the MBS asset purchase program in light of expected declines in the tradable float, and dynamics within funding markets with short-term interest rates remaining near or below zero.
    - Members noted that recent stabilization in Treasury yields could be attributed to robust demand from pension funds, foreign investors, insurance companies, and bank portfolios offsetting a backdrop of improved economic data and increased Treasury

supply. Nonetheless, members noted factors that might result in higher Treasury yields in the second half of the year, such as decreased demand due to robust supply or, in particular, increased expectations around the proximity of asset purchase tapering.

- Members then discussed the potential benefits of the Federal Reserve considering a reduction in MBS asset purchases soon, and whether a reduction in MBS purchases before Treasuries might be appropriate. They noted that reducing MBS purchases could prevent any potential deterioration of MBS market functioning resulting from a declining tradeable universe. Domestic bank and foreign investor demand for MBS were described as higher than normal and, combined with asset purchases, have strongly tightened supply-demand dynamics. Members pointed to MBS spreads relative to Treasury equivalents remaining near all-time lows and tradable float projected to fall to record lows by year-end.
- Members then turned to evolving money market dynamics with the constellation of short-term interest rates trading closer to, and in some cases below, zero. They noted the dislocation of unsecured and secured interest rates, and new trading behavior in repo markets. Lower repo yields were cited as reducing volumes further out on the term funding curve and pushing overnight trading activity toward earlier in the day and pre-open, leaving liquidity later in the day reduced.
    - A member noted that one consequence of these changing dynamics may be an increase in repo trades occurring before the opening of FICC, which may not be visible to market participants at the time of trade. The TMPG Chair requested that members consider whether these early transactions were in line with TMPG best practices, specifically those related to promoting liquidity and transparency.[1,2]

- Department of Treasury staff then provided an update on the ongoing work by the Interagency Working Group on Treasury Market Surveillance (IAWG). This work aims to study the key causes of and lessons learned from the volatility and illiquidity in Treasury secondary markets that occurred in March 2020, and, in particular, to consider ways to enhance Treasury market resilience. As a part of this effort, staff noted that the IAWG identified five primary areas for

[1] The Chair asked for volunteers to be part of a small working group to further discuss this issue and make any recommendations to the TMPG.

[2] The Chair pointed to the specific best practice: "Market participants should be responsible in quoting prices and should promote overall price transparency across trading platforms. Price discovery relies on efficient price reporting and transparent markets. For example, market participants should not conduct trades through interdealer voice brokers with electronic trading screens without having a record of the transaction published on the screen at the time of the transaction." For a full list of TMPG best practices please see the "Risk Management" section of the group's best practice recommendations.

further study during a speech at the Federal Reserve Bank of New York's Annual Primary Dealer Meeting on April 8. Discussion among members primarily centered around improving resilience of Treasury market liquidity and its efficiency, including discussions around the costs and benefits of all-to-all trading and central clearing. Members debated whether greater use of all-to-all trading could have dampened the volatility experienced in March 2020 by potentially increasing the capacity of the market to better absorb shocks, and the impact its implementation would have on financial intermediaries. Members also debated the potential impact that greater central clearing would have had on reducing counterparty credit exposure and improving price discovery and execution during March 2020. However, no consensus on either all-to-all trading or central clearing was reached, and members agreed to continue the discussion at later date.

- The discussion was followed by a New York Fed staff presentation on the potential netting efficiencies of market-wide central clearing. This presentation summarized a recent New York Fed staff report on this topic.

- The Chair of the TMPG data and transparency working group then provided members with a working draft inventory of Treasury futures market data. She noted that the group remains on track to complete the first objective, creating an inventory of existing Treasury market data, in the first half of this year. The inventory is expected to include data availability, data frequency, and data sources. Once the inventories for Treasury cash and funding markets are completed, the group plans to move onto assessing any cross-market takeaways.

- The TMPG secretariat then reviewed summary statistics related to its agency MBS margining recommendation. Over the three-month period ended March 15, TMPG member firms had, on average, executed margining agreements with about 70 percent of their counterparties. These agreements covered approximately 86 percent of notional trading volume of forward-settling MBS transactions (excluding those centrally cleared), and margin exchange was operationalized for roughly 98 percent of these executed agreements. These statistics were in line with recent averages. The TMPG secretariat requested members provide feedback on the collection of these summary statistics; specifically, feedback was requested on the optimal frequency of data collection as well as any operational requirements associated with data collection.

- The next regularly scheduled TMPG meeting will take place on June 22, 2021, from 2:30-4:30 PM.