TMPG Meeting Minutes

March 31, 2020

TMPG attendees

Alberto Antonini (Tudor)
Debbie Cunningham (Federated)
David Finkelstein (Annaly)
Rob Huntington (Credit Suisse)
Ari Kavour (Wells Fargo)
Chris Leonard (Barclays)
Edward McLaren (Bank of America)
Andrea Pfenning (BNY Mellon)
Thomas Pluta (JP Morgan)
Murray Pozmanter (DTCC)
Jerry Pucci (BlackRock)
Rasmus Rueffer (ECB)
Marc Seidner (PIMCO)
Ryan Sheftel (GTS)
Gemma Wright-Casparius (Vanguard)

New York Fed attendees

Frank Keane
Lorie Logan
Matt Milroy
Rania Perry
Matthew Raskin
Brett Rose
Janine Tramontana
Kyle Watson
Carolyn Windover
Nate Wuerffel

U.S. Department of Treasury attendees

Nicholas Steele
Brian Smith

- Due to the coronavirus pandemic, the TMPG meeting was held remotely via videoconference. The meeting commenced with the chair noting that the repo clearing and settlement working group would be paused given the recent heightened focus on market functioning more broadly amid the coronavirus pandemic. The chair emphasized that the repo mapping work remained highly relevant and would recommence when appropriate. The chair also noted that the TMPG would hold an intermeeting teleconference on April 17th to keep abreast of market conditions.[1] The chair finally noted that the TMPG published a press release encouraging market participants to remain attentive to best practice recommendations during this time in order to support market integrity and efficiency.[2]

- The TMPG then turned to a discussion of recent market developments. Member discussion centered around four areas: funding market dynamics, liquidity in covered markets, credit conditions, and operational risks.

    - Funding Market Dynamics: Members broadly noted that funding conditions have improved and that markets have stabilized near the zero lower bound, although some

[1] The TMPG also held an intermeeting call on March 19th, the summary of which can be found in the Appendix.

[2] The full press release can be found on the TMPG's website.

strains were still evident in term funding markets. Additionally, members acknowledged that the announcements of the Primary Dealer Credit Facility (PDCF) and Money Market Mutual Fund Liquidity Facility (MMLF) have helped mitigate funding pressure, and that they will remain attentive to any additional details on these facilities as they become available. Members also noted that the announcement that municipal bonds would be added to MMLF was helpful. Relatedly, members highlighted that excess cash remains in the system, contributing to large inflows into government money funds. It was also noted that these flows can be viewed as structural as investors shift into cash to reduce risk profiles.

- Market Liquidity: In Treasury markets, members noted that liquidity metrics across the curve, including market depth and bid/ask spreads, have continued to normalize relative to recent weeks. Members described the normalization as across Treasury products and tenors, while noting that the recovery was not complete and it varied across Treasury security sectors. Specifically, it was noted that the long end of the nominal curve had lagged behind the rest in terms of liquidity. Turning to agency MBS, members noted that Fed intervention in the agency MBS market had led to improved liquidity and had reduced the spread between agency MBS and Treasury hedge equivalents (mortgage basis). However, members noted that the tightening of the mortgage basis was having an adverse impact in the primary mortgage market. With the fall in broader interest rates and tighter spreads, members noted that the significant rise in the price of agency MBS TBA contracts were leading to margin calls on mortgage originators who have sold these contracts as a hedge against new mortgage origination. Members also noted that there were likely to be delays in the closing of mortgage loans stemming from the coronavirus which would not only impact the timing of cash flows for mortgage originators, but also complicate prepayment and other risk modeling for agency MBS.

- Credit Conditions: TMPG members described liquidity and access to credit markets for investment grade issuers as improving, while noting that the market for less highly rated corporate debt issuers remained strained. However, members noted that Fed support of this market, through the MMLF and the announcement of the Corporate Credit Facility (CCF), which was not live at the time of the meeting, have already helped improve liquidity and reduce corporate risk premium.

- Operational Risk: Overall, members noted that contingency and resiliency arrangements have worked well. In most cases members noted that their firms were primarily working from home, while it was noted that some had traders working at remote or split operations sites. On the compliance front, members highlighted the focus on remote supervision and controls, particularly around communication, information-handling, use of recorded lines, etc. in light of the move to work from home. Turning to settlement, members noted that in spite of elevated volumes there were few notable settlement challenges in the Treasury market – with market participants having adapted well to remote work situations.

- The meeting ended with members being asked to consider the current set of best practices related to contingency and resiliency in light of the current operating environment. Member feedback on whether these best practices are sufficient is to be reviewed at a later meeting date.

- The next regularly scheduled TMPG meeting will to take place on May 12th, 2020 from 3:00-5:00 PM.

Appendix: Summary of March 19th TMPG Call on Market Functioning and Business Resiliency

TMPG attendees

Alberto Antonini (Tudor)	Chris Leonard (Barclays)	Jerry Pucci (BlackRock)
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U.S. Department of Treasury attendees

Nicholas Steele	Brian Smith

- In light of the extraordinary market volatility amid the coronavirus pandemic, the TMPG held an intermeeting call to discuss market functioning.

- Overall, members noted significant market functioning issues across TMPG-covered markets over recent weeks, including severely strained liquidity amid unprecedented levels of market volatility. They also described the Desk's array of Open Market Operations as helpful and impactful, but encouraged further and more dramatic measures. Particular concern on credit markets was expressed, with members noting that additional support or action would be needed.

- Members specifically focused on conditions in funding markets, Treasury markets and mortgage markets:

    - Funding Markets: Members noted significant deteriorations in money market functioning over recent days, particularly in commercial paper, with liquidity and balance sheet availability becoming difficult to source.

    - Treasury Markets: Members noted exceptionally wide bid-ask spreads and difficulty in executing transactions or finding liquidity in Treasury markets. Members also pointed to the widening in the cash-futures basis and many investors looking to raise cash, resulting in a wave of selling, as further hampering liquidity. Liquidity was described as particularly poor in the TIPS markets and at the long-end of the curve.

    - Mortgage Markets: Members characterized the recent MBS market functioning as severely poor, with liquidity being as or more challenged than it was in the financial crisis. Members noted the pace and scope of the deterioration in market were cited as amplifying leverage ratios for levered accounts who needed to sell in order to de-lever and meet margin calls. The deleveraging was cited as resulting in a secondary market supply shock, which came on top of a week of heavy supply from the primary market from a historically large refinancing wave.

- Members concluded with a discussion on contingency and resiliency efforts. Most member firms stated that the majority of staffs were either in contingency locations away from major centers of the COVID-19 outbreak, are utilizing alternating schedules, or are working from home. A few members did express concerns about breakdowns in communication and the ability of traders to execute given the work from home environment, which could be exacerbated as more employees move to a work from home posture.