TMPG Meeting Minutes

September 2, 2021

TMPG attendees

Alberto Antonini (Tudor)
Sunil Cutinho (CME Clearing)
David Finkelstein (Annaly)
Doug Friedman (Tradeweb)
Kourtney Gibson (Loop)
Paul Hamill (Citadel Securities)
Deland Kamanga (BMO)
Ari Kavour (Wells Fargo)
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)

New York Fed attendees

James Bergin
Veronika Jastrzebski
Samuel Kanson-Benanav
Lorie Logan
Matt Milroy
Rania Perry
Matthew Raskin
Brett Rose
Benjamin Snodgrass
Nate Wuerffel

U.S. Department of Treasury attendees

Joshua Frost
Fred Pietrangeli
Nicholas Steele

Board of Governors of the Federal Reserve System attendees

David Bowman
James Clouse

G30 attendees

Patrick Parkinson

Depository Trust & Clearing Corporation attendees

Brian Disken
James Hraska
Laura Klimpel

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

- The meeting commenced with Pat Parkinson of the G30's working group on improving Treasury market resilience presenting key takeaways from the recent G30 white paper. Members noted that the TMPG's working group on repo market clearing and settlement and the working group on data and transparency could help support additional work or any potential official sector action. The TMPG chair noted that the TMPG had previously mapped out the clearing and settlement processes for cash markets, creating a detailed set of maps and taking a step back to look more broadly look at Treasury market infrastructure and develop best practice recommendations. The chair also noted that TMPG working groups would be guided by these earlier findings, which were part of a previous TMPG white paper, as they advance their current respective deliverables. The TMPG white paper found, among other risk issues, that:

  - Market participants may not be applying the same risk management rigor to the clearing and settlement of their U.S. Treasury activities compared to that of other instruments.
  - With bilaterally cleared interdealer broker (IDB) activity as well as bilaterally cleared dealer-to-customer activity, a large and likely growing majority of trades in the secondary Treasury market are risk-managed through bespoke arrangements that are less standardized and transparent compared to centrally cleared activity.
  - Liquidity risk management practices in the Treasury cash market should contemplate gross exposures because the entire notional value of a transaction must be funded in the event of a default or fail (unlike Treasury futures).

- Members then transitioned to a discussion of market developments since the June TMPG meeting. They discussed their economic outlooks, thoughts on monetary policy, expectations around the debt ceiling, and recent money market dynamics.

  - Members generally agreed on the economic outlook, noting that the spread of the COVID Delta variant will potentially slow, but not stop, economic growth through the rest of the year and into 2022.

  - Regarding monetary policy, members noted that market expectations appear nearly fully priced in for an asset purchase taper announcement and start sometime in late 2021 or early 2022. Members expect that the tapering will occur over six to ten months. Separately, members were supportive of the FOMC announcement of a domestic standing repo facility (SRF) and a repo facility for foreign and international monetary authorities (FIMA repo facility). Members agreed that these facilities should serve as backstops in money markets to support the effective implementation of monetary policy and smooth market functioning.

  - In terms of the debt ceiling, members viewed the debt ceiling "X-date" as likely to occur sometime in late October or early November, and highlighted that pricing in the Treasury bills curve was consistent with market expectations for that time period. Members generally expected the debt ceiling to be raised before Treasury exhausted its cash and extraordinary measures; however, some members noted growing concern around the potential for a delayed payment on Treasury debt, which could create severe market disruptions.

  - Members noted the relevance of the TMPG's 2013 white paper on "Operational Plans for Various Contingencies for Treasury Debt Payments", which focuses on operational practices associated with a delayed payment on Treasury debt, in order to reduce the adverse consequences of such an event on the markets for these securities.[1] The practices rely on rolling a security's operational maturity date forward in the Fedwire Securities Service and other systems. The practices are designed to allow for the continued trading and transfer of securities on Fedwire that are subject to delayed principal payments. If the maturity date of such securities was not rolled forward in Fedwire, they would instead become non-transferrable. Once a security becomes non-transferable, it cannot be transferred from one participant to another in Fedwire. Even with the practices outlined, the TMPG paper notes that a delayed payment on Treasury debt could cause significant damage to, and undermine confidence in, the markets for Treasury securities and other assets.

- Finally, members noted the decline in bill supply, which has contributed to growth in the Fed's overnight reverse repurchase agreement operations (ON RRP)—a dynamic members expected to continue until the debt ceiling issue was resolved. However, members agreed that the ON RRP has been behaving as intended and serving its purpose as an effective soft floor on funding rates. Several members noted that, as ON RRP utilization increases, the Fed may choose to increase the ON RRP's counterparty limit in the future, should the limit become binding for individual counterparties.

- A member of the TMPG's repo market clearing and settlement working group reviewed the working group's progress on the mapping of general collateral financing (GCF), delivery-versus-payment (DVP), and CCP-sponsored trades (DVP and GC). She noted the maps are close to completion and requested feedback from the broader group. The chair of the working group noted she expects an initial set of maps to be released in the next couple of months and that the next steps would be to finalize the maps based on additional feedback, conduct an analysis of any potential risk or resiliency issues, and determine if there are implications for the best practice recommendations.

- The chair of the TMPG's data and transparency working group provided an overview of the group's work, presenting members with a working draft of data inventories for the Treasury futures and cash markets. She noted the working group would next create an inventory for Treasury funding markets and expected to publish the initial set of inventories in the next couple of months. The chair stated that after the inventory process is complete, the group will take a step back, conduct an analysis of the inventories, and identify any notable data gaps and

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[1] Following a review of the white paper, the TMPG reaffirmed at its June meeting that the document remains a relevant technical reference on these matters and determined that no change were warranted.

potential improvements worth further consideration.

- The TMPG chair noted that the early trading working group was conducting bilateral outreach to IDBs to better understand pre-7:00 a.m. repo trades in the FICC market. While outreach was still underway, an initial takeaway from discussions with IDBs was that there was not a technological barrier to disclosing trades at the time of execution; however, several IDBs expressed a desire to not be the first to disclose trades at the time of execution given the current market convention of trade reporting when FICC opens for repo trades at 7:00 a.m. Eastern time.