

TMPG Meeting Minutes

February 26, 2015

TMPG attendees

Julie Coronado (Graham Capital Mgt)	Beth Hammack (Goldman Sachs)	Sandra O'Connor (JPM Chase)
Jim DeMare (BAML)	Jim Hraska (Barclays)	Gerald Pucci (Blackrock)
Dan Dufresne (Citadel)	Gary Kain (American Capital Agency)	Mark Tsesarsky (Citigroup)
Brian Egnatz (HSBC)	Vincent Legroux (Banque de France)	Stuart Wexler (ICAP)
Michael Garrett (Wellington)	Steven Meier (State Street Global Advisors)	Tom Wipf (Morgan Stanley)

FRBNY attendees

Michelle Ezer	Lorie Logan	Brett Rose
Joshua Frost	Radhika Mithal	Susmitha Thomas
Glenn Haberbusch	Anna Nordstrom	Janine Tramontana
Frank Keane	Simon Potter	Nate Wuerffel

- The meeting commenced with the annual review of the TMPG's [Charter](#) and [Antitrust Guidelines for the Members of the TMPG and Associated Working Groups](#). This was followed by acknowledging the contributions of the departing TMPG Secretary, Susmitha Thomas, along with a welcome to the new Secretary, Radhika Mithal.
- The TMPG discussed recent market developments including reactions to the New York Fed's announcement regarding [planned changes to the calculation of the federal funds effective rate and publication of an overnight bank funding rate](#), reactions to the [January FOMC meeting](#) and communications, and the Federal Reserve's reverse repurchase agreement exercises. In addition, members discussed the possible need for market participants to review their operational systems' readiness to calculate settlement fails charges under various potential interest rate environments. Members agreed to look into this issue and discuss at a future TMPG meeting.
- FRBNY staff presented a brief aggregated summary of information provided by TMPG member firms related to trading and risk management issues associated with the volatility encountered on October 15, 2014, as [suggested at the Committee's prior meeting](#). The feedback presented included the following:
 - The most commonly cited factors driving the sharp initial decline in interest rates were sentiments related to a perceived downturn in the global macroeconomic outlook, significant unwinds of crowded short interest rate and volatility positions, and strained liquidity conditions in Treasury markets.
 - Members noted that the overall volume of trading in the Treasury securities markets hit a record high for the day according to data reported from several trading venues. Consistent with overall volume trends, most members generally noted that their firm's volumes were also higher than normal.
 - Despite record volumes, a majority of members noted that liquidity on the day was worse than normal, first evidenced by a very unusual 10-minute price spike and

retracement shortly after 9:30 a.m. (ET) that did not appear to be associated with any fundamental news, and an increased cost of trading for the remainder of the day.

- Members did not have direct evidence for what caused the price volatility, but suggested a number of factors likely played a role including, the increase in automation and algorithmic nature of trading in Treasury markets and the effects of regulatory changes on banks and broker dealers' ability or willingness to make markets and warehouse risk in times of stress.
- Trade execution strategies employed by members reportedly underwent some alterations to manage the risks associated with the heightened volatility. Some TMPG members reported turning off auto-quoting systems, some reduced the depth of bids and offers made available, and others widened bid/ask spreads. Members also suggested that algorithmic trading strategies employed by some market participants may have become inactive during volatile periods of the day.
- Members generally suggested that, given the structural changes in the market, including growth of automated trading and impact of regulations, there is an increased potential for further episodes of volatility and impaired liquidity in Treasury markets.

The TMPG agreed to consider identifying any potential gaps in practices that the TMPG might address.

- The TMPG received an update from the working group formed to study the use of reference rates relevant to TMPG covered markets. The working group shared its preliminary findings from surveying a small subset of TMPG member firms on their use of the fed funds open rate and the 10:00 a.m. volume weighted average repo rate. Both these rates were used extensively as reference rates for a variety of trades including those for firm financing and securities lending. Members discussed the rationale for the use of these benchmarks as well as factors around their calculation. There was agreement to expand the survey to include all TMPG member firms to inform any future efforts.
- The working group on high-speed electronic trading then provided an update on its progress and provided all TMPG members with a draft white paper for comment. Member feedback on draft potential best practice recommendations related to automated trading in the covered markets was also sought. The group agreed that it would be useful to consider further market outreach associated with the paper and recommendations.
- The TMPG then briefly discussed ongoing and potential future priorities for the Group. In addition to the group's current focus on high-speed electronic trading and the use of reference rates in TMPG covered markets, members noted that it may be useful in the future for the group to discuss the impact of regulatory changes on TMPG covered markets and to continue to discuss developments related to reform of the TBA market. Members also noted that the TMPG should continue to monitor the impact of FINRA's proposed changes to [Rule 4210 for Transactions in the TBA Market](#) on the TMPG's recommendation

for agency MBS margining, evaluate industry business continuity planning, support ongoing tri-party repo reform efforts, and seek opportunities to enhance data transparency in its covered markets. Finally, the TMPG will continue to periodically assess the appropriate level of the recommended level of the Treasury and MBS fails charge rates.

- The next TMPG meeting will take place on Wednesday, April 1, from 4:00-6:00 PM.