TMPG Meeting Minutes
June 25, 2014

TMPG attendees

Art Certosimo (BNY Mellon)
Julia Coronado (Graham Capital)
Jim DeMare (BAML)
Dan Dufresne (Citadel)
Brian Egnatz (HSBC)
Michael Garrett (Wellington)
Beth Hammack (Goldman Sachs)
Jim Hraska (Barclays)
Vincent Legroux (Banque de France)
Sandra O'Connor (J.P. Morgan Chase)
Mark Tsesarsky (Citigroup)
Stu Wexler (ICAP)
Tom Wipf (Morgan Stanley)

FRBNY attendees

Joshua Frost
Christina Getz
Frank Keane
Lorie Logan
Susan McLaughlin
Simon Potter
Susmitha Thomas
Janine Tramontana

Federal Reserve Board attendee

Jim Clouse

U.S. Treasury Department attendee

James Clark

– The meeting commenced with a welcome to new members, Jim DeMare from Bank of America Merrill Lynch and Sandra O'Connor from J.P. Morgan Chase, and an acknowledgement of contributions to the TMPG by departing member Curt Hollingsworth from Fidelity. In light of recent membership changes, New York Fed staff then provided an overview of TMPG membership guidelines (outlined in its charter) and noted that the work of the TMPG would continue to benefit from the input of a diverse set of individuals and firms.

– The TMPG then turned to a discussion of recent market developments, including financial market reactions to the June FOMC meeting, the June ECB Governing Council Meeting, and the Federal Reserve's Overnight Fixed-Rate, Reverse Repurchase Agreement Operational Exercise.

  Members then discussed the current state of market function for the Treasury market, particularly the increased level of settlement fails in June. Members suggested that the increased level of fails could be attributed to a variety of factors including dealer positioning, quarter-end balance sheet constraints, and regulatory developments. Members also agreed that continued attention to fails trends in the coming months would help identify any underlying structural market concerns.

– The Group then received an update from a New York Fed staff member on the status of tri-party repo infrastructure reform efforts and the progress in reducing the usage of discretionary intraday credit extended by the tri-party clearing banks. The Group acknowledged that much work remains to ensure a smooth transition to the 3:30-5:15 window for end-of-day settlement of tri-party repo trades (excluding GCF repo trades) that will take effect in December. In particular, the group noted that payment instructions, funds netting, and payment movements will all need to occur earlier and in a more efficient manner than they do today. TMPG members agreed that market participants should work within their firms and with their counterparties and service providers, to make the changes needed to support the upcoming end-of-day settlement window transition.

- The TMPG then received an update from a working group formed to better understand the use of reference rates in TMPG covered markets. The Group agreed to focus its work on the most relevant reference rates in TMPG covered markets (including the federal funds open, 10:00 am repo rate averages, and the aggregate bond indices used by portfolio managers as performance benchmarks) and consider potential best practices that could apply to market activity related to these benchmark indices. During this discussion members also referenced the Fair and Effective Markets Review, recently launched in the U.K., which includes in its scope benchmark reform. The TMPG agreed to continue discussion of reference rates at a future meeting.

- The Group then received an update from a working group formed to conduct a high-level review of high-speed electronic trading in TMPG covered markets, particularly in the Treasury securities market.
  - The working group identified preliminary considerations for potential best practice recommendations that might be adopted by market participants to support market liquidity and maintain the integrity and efficiency of Treasury markets. Potential best practices under consideration include trading principles that would be supportive of Treasury market liquidity, appropriate behavior in quoting prices, the development of internal processes and procedures to adhere to market best practices, and vigilance over unusual changes in trading and quoting activity.
  - Working group members then agreed to begin drafting a white paper that would describe the presence and drivers of high-speed trading in TMPG covered markets, and expand outreach to a broader set of market participants to inform its work.

  The TMPG agreed to continue the discussion of potential best practice recommendations and the white paper at subsequent meetings.

- TMPG members then reviewed summary statistics related to its agency MBS margining recommendation, which remained in line with the statistics reported at its May meeting. As of June 6, 2014, TMPG member firms had, on average, executed margining agreements with roughly 65 percent of their counterparties. The executed agreements covered roughly 85 percent of TMPG member firms' notional trading volume (excluding centrally cleared trades), and margin exchange had been operationalized for roughly 70 percent of the executed agreements.

- Members then discussed feedback from market participants related to the release of updated agency MBS margining and fails charge FAQs on June 13, regarding the applicability of the agency MBS margining recommendation and the fails charge practice recommendation to agency multifamily and project loan securities. Members acknowledged the distinct characteristics of the agency multifamily market and recognized that the updated FAQs may necessitate updates to legal documentation and operational systems. The Group agreed that market participants should continue to implement best practice recommendations for agency multifamily and project loan securities, and other covered securities, on a rolling basis. In addition, the TMPG reaffirmed its prior view that agency multifamily and project loan securities fall within the intended scope of the agency MBS margining and fails charge practice recommendations.

- The next TMPG meeting will take place on Tuesday, September 23, from 4:00-6:00 PM.