Minutes of the Payments Risk Committee meeting on market developments

Tuesday, October 15, 2013
Federal Reserve Bank of New York
33 Liberty St., New York, NY

<u>Meeting participants</u>

Present:

Brian Begalle, FRBNY
Christine Cumming, FRBNY
Linda Fahy, FRBNY
Joshua Frost, FRBNY
Frank Keane, FRBNY
Sandy Krieger, FRBNY
Catherine Kung, FRBNY
Lorie Logan, FRBNY
Tyisha Rivas, FRBNY
Susmitha Thomas, FRBNY
Nathaniel Wuerffel, FRBNY

Via teleconference:

William Lorenz, Bank of America
Kurt Woetzel, Bank of New York Mellon
Michael Gotimer, Bank of Tokyo-Mitsubishi UFJ
Scott Simon, Deutsche Bank
Robin Vince, Goldman Sachs
John Ciccarone, HSBC
Paul Camp, JPMorgan Chase
David Russo, Morgan Stanley
Art Laichtman, UBS
Darryll Hendricks, UBS
David Crawford, State Street
Jeanmarie Davis, FRBNY
Staff at Federal Reserve Board of Governors

In early October, members of the Payments Risk Committee (PRC) requested that the group convene via teleconference to discuss market and payments developments related to the U.S. debt ceiling. In light of Paul Galant's recent resignation from Citigroup, Robin Vince of Goldman Sachs, past Chairman of the PRC, agreed to chair the call.

The purpose of the call was for PRC members to share information with other members, about questions and concerns, over issues and risks, related to potential debt ceiling scenarios. The PRC Secretariat organized the call and shared minutes from the June 2012 and the September 2013 meetings of the Treasury Market Practices Group in advance of the meeting. Federal Reserve staff listened to the discussion, but did not participate in it directly.

There was general agreement among the participants on the call that the concern was not whether Treasury will make good on the matured U.S. Treasury securities but that the focus was on the short-term market effect associated with the treatment of matured U.S. Treasury securities with delayed payments. The discussion centered on whether the market would continue to perceive/treat as cash equivalents U.S. Treasury securities with delayed payments, the potential disruption in funding market participants may experience and the eligibility of these securities as Federal Reserve Discount Window collateral. Some participants have suggested that these and other questions along with the potential operational burden which may arise from holding and accounting for such U.S. Treasury securities have caused some market participants to not accept certain U.S. Treasury securities as collateral for repo transactions, or to exit, sell off or not reinvest their positions in these securities. Others, however, have not seen a significant change in market activity (in terms of volume) with respect to these securities.

Participants suggested that the group reconvene via teleconference to check in with each other at the end of the day, on Thursday, October 17, should the debt ceiling issue not be resolved by then.