

## **TMPG Meeting Minutes**

*Date: April 11, 2024*

*Location: Federal Reserve Bank of New York, 33 Liberty Street*

### TMPG attendees

Alberto Antonini (Tudor Investment Corp)	Matthew Franklin-Lyons (JP Morgan)	Edward McLaren (Bank of America)
Richard Chambers (Goldman Sachs)	Doug Friedman (Tradeweb)	Adam Nunes (Hudson River Trading)
Qing Chen (Morgan Stanley)	Lara Hernandez (Mirae Asset Sec)	Andrea Pfenning (BNY Mellon)
Debbie Cunningham (Federated Hermes)	Makoto Kasai (Bank of Japan)	Gerald Pucci (BlackRock)
Sunil Cutinho (CME Group)	Laura Klimpel (DTCC)	Marc Seidner (PIMCO)
David Finkelstein (Annaly Capital Mgt)	Serena Lin (Mizuho Sec)	Casey Spezzano (NatWest)
David Flowerdew (Millennium Mgt)	John Madziyire (Vanguard)	

### New York Fed attendees

Anirudh Arikarevula	Michelle Neal	Brett Rose
Ellen Correia Golay	Anna Nordstrom	Janine Tramontana
Frank Keane	Roberto Perli	Agata Zhang

### U.S. Department of Treasury attendees

Sally Au Yeung	Brian Smith
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### Board of Governors attendees

David Bowman

### SIFMA attendees<sup>1</sup>

William Thum	Robert Toomey
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- The Chair opened the meeting by welcoming three new members, David Flowerdew (Millennium Management), Makoto Kasai (Bank of Japan), and Serena Lin (Mizuho Securities) to the TMPG.
- Following the administrative announcements, SIFMA representatives provided an update on SIFMA's Treasury Clearing Standardized Documentation Project. The project's objective is to publish a template for customer clearing legal documentation, with the ability to add customized modules as needed, to assist with implementation efforts around the [SEC's rule on expansion of central clearing](#) for U.S. Treasury cash and repo transactions. The project will also develop amendments to SIFMA's existing forms of standard repurchase trading agreement documentation, and an expanded set of enforceability and netting opinions. SIFMA representatives noted a range of issues under discussion, such as transition to a 'done-away' clearing model, registered funds' clearing limitations, treatment of margin and customer payment obligations, cross collateralization and cross product netting, rejected trades and breakage fees, and default by a customer or a clearing member. SIFMA representatives also expressed some concerns with the SEC rule implementation timetable but noted strong representation in the documentation project from buy-side and sell-side firms. SIFMA aims to deliver a first set of template documentation by the end of July. The SIFMA representatives

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<sup>1</sup> SIFMA attendees left the meeting following the Treasury Clearing Standardized Documentation Project update.

also noted that an operations working group would be formed related to the expansion of central clearing.

- The TMPG Secretariat provided the semiannual margining summary of forward settling agency MBS trades. Over the six-month period ending March 15, 2024, TMPG member firms had, on average, executed margining agreements with about 82 percent of their counterparties for the fourth quarter of 2023, and about 80 percent for the first quarter of 2024. These agreements covered approximately 91 percent of notional trading volume of forward settling agency MBS transactions (excluding those centrally cleared) for both periods. Margin exchange was operationalized for roughly 91 and 92 percent of these executed agreements for both quarters. The statistics for each period were in line with recent averages.

The TMPG Secretariat noted it will continue to collect forward settling agency MBS margining statistics on a semi-annual basis until further notice, as the Group believes it will remain useful information to track as the new [FINRA Rule 4210](#) for agency MBS margining is implemented. The Secretariat further emphasized that the [TMPG best practice](#) recommendation regarding agency MBS margining requirements calls for a two-way margin exchange to mitigate counterparty risk, which goes beyond the collection regime established by FINRA Rule 4210.

- The Co-Chairs of the **Non-Centrally Cleared Bilateral Repo Risk Management (NCCBR) Working Group** provided an update on the Group's progress. Considering the findings of the NCCBR questionnaire and TMPG member feedback received at the last TMPG meeting, the working group plans to draft a white paper on the non-centrally cleared bilateral repo risk management, including a careful comparison of repo margin practices in general. It was noted that the working group plans to present an outline for the white paper at the next meeting.
- The meeting then transitioned to a discussion of market developments since the [February TMPG meeting](#). The discussion primarily focused on members' views on the U.S. macroeconomic outlook, expectations for the path of the Fed policy and balance sheet, as well as foreign demand for U.S. Treasuries.
  - Members noted strong signs of economic growth amid a resilient labor market and firm CPI data. Members generally articulated expectations for two U.S. interest rates cuts in 2024, down from expectations for three rate cuts expressed at the preceding TMPG meeting.
  - Members suggested that the monetary policy is expected to remain restrictive for longer as the transmitting mechanism from higher U.S. interest rates may not be as strong as in the past. Members highlighted three aspects that justified market expectations for higher interest rates for longer: resilient consumer demand with low servicing costs providing a boost to disposable income, recent communications by Fed officials, and a number of firming commodity prices creating pipeline for future inflation.
  - In terms of the path of Fed balance sheet, members generally indicated that they expect the Fed to slow the pace of quantitative tightening (QT) in June 2024, by reducing the size of its monthly Treasury redemption cap from \$60 billion to \$30 billion, while keeping the mortgage-backed securities cap of \$35 billion unchanged. Members noted, however, a high degree of uncertainty and differing market participant views as to when the QT will end.
  - Members generally continue to expect ON RRP balances to decrease but not necessarily all the way to zero, supporting the view expressed at the last TMPG meeting that some market

participants prefer to use the ON RRP facility, given the premium placed on the counterparty diversity when selecting investment vehicles. Members also re-iterated market sentiment that increased or routine usage of the Fed's Standing Repo Facility, if occurred, would precipitate an end to the Fed's balance sheet reduction.

- The discussion then turned to the developments in foreign central bank policy, including Bank of Japan (BoJ)'s decision to exit its negative interest rate policy stance and yield curve control last month and the potential implications to foreign demand for U.S. Treasuries. Members expect the BoJ to maintain accommodative financial conditions for the time being, noting that Japanese investor behavior has not changed meaningfully. It was noted that Japanese demand for U.S. Treasuries remains subdued due to the inverted yield curve and interest rate cuts being pushed out further into 2024. At the same time, it was noted that Japan's largest pension funds are expected to maintain a benchmark allocation to foreign bonds, which likely includes investment in U.S. Treasuries.
- The next TMPG meeting is scheduled for May 14, 2024, from 3:00-5:00 PM.