TMPG Meeting Minutes

Date: December 3, 2024
Location: J.P. Morgan, 383 Madison Avenue

TMPG attendees

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

New York Fed attendees

Anirudh Arikarevula
Adam Copeland
Ellen Correia Golay
Frank Keane
Vinuthna Kovvuri
Anna Nordstrom
Roberto Perli
Brett Rose
Janine Tramontana
Agata Zhang

U.S. Department of Treasury attendees

Brian Smith
Joshua Stachura

Board of Governors attendee

David Bowman

- The meeting commenced with a few administrative announcements. A New York Fed representative thanked departing member, Frank Keane, for his commitment, dedication, and invaluable contributions to the TMPG since the Group's inception. The TMPG was informed that the Chair, Casey Spezzano, and the New York Fed ex-officio member, Ellen Correia Golay, had provided an overview of the TMPG, including its recent work to the Canadian Fixed Income Forum at that group's November meeting. A New York Fed representative then highlighted the Treasury Borrowing Advisory Committee's recent charge on the Inter-Agency Working Group's effort on Treasury Market resiliency as a useful resource. Finally, the TMPG Secretariat announced a tentative TMPG meeting schedule for next year.

- Following administrative announcements, the Group discussed various Fixed Income Clearing Corporation (FICC) initiatives related to Treasury central clearing, including approved and pending rule filings, done-away model design, and customer on-boarding. It was noted that the done-away workflow design for Treasury repo clearing is significantly more complex than the workflow model for the done-away Treasury cash clearing transactions, which are already occurring. For done-away repo clearing, new infrastructure and workflows must be built for both platforms and voice trading. Workflow design is viewed as a prerequisite to finalization of the legal documentation for done-away repo trading. TMPG members raised the lack of pre-trade credit checks for voice-executed trades as an implementation issue that will need to be resolved. In terms of onboarding, it was noted that significant automation and enhancements are underway to support intermediaries and customers onboarding to FICC. Members agreed that continued engagement of market participants with industry forums, CCPs, and their clients will be needed to ensure progress towards meeting the regulatory deadlines for central clearing. Finally, it was noted that the accounting analysis of both the agent clearing and the sponsored models is expected to conclude shortly.

- Members then discussed industry engagements around central clearing. A TMPG member provided a brief update on SIFMA's legal documentation project, noting that SIFMA and SIFMA's Asset Management Group have recently published standardized Master Treasury Securities Clearing Agreements for done-with clearing, and similar centralized efforts are underway for developing standardized legal documentation for done-away clearing. Then, a New York Fed representative gave a brief overview of SIFMA's U.S. Treasury Central Clearing Industry Considerations Report. Members noted that the U.S. Treasury cash market has received less industry focus, and that Futures Industry Association is forming a group to focus on central clearing of cash activity. The New York Fed representative then reminded members to consider any areas of work related to central clearing in the U.S. Treasury market where it would be helpful for the TMPG to engage in 2025.

- Members then transitioned to the **Non-Centrally Cleared Bilateral Repo (NCCBR) Working Group** update. A New York Fed representative noted that the working group had discussed including a proposed best practice recommendation in the draft NCCBR white paper that the group is finalizing for public comment early in the new year. They also invited TMPG members to share their thoughts on the idea of a recommendation that haircuts be applied to Treasury repo transactions. TMPG members expressed a range of views, including discussion around the role for haircuts in managing counterparty credit risk, considerations around cross-portfolio margining, and the role of leverage in the repo market. Then, one of the NCCBR Working Group Co-Chairs recapped similar key points of debate raised during the working group discussion.

- The **Operational Resiliency Working Group's Co-Chairs** presented the final proposed modifications to the best practice recommendations related to operational resiliency in TMPG-covered markets, given recent cybersecurity events and other widespread outages and service disruptions. Some of the highlighted changes included recommendations to encourage market participants to consider issues, such as single points of failure, alternative backup providers, concentration risk, and fourth-party downstream reliance, as well as both the potential sudden intraday loss of access and more extended disruptions in their contingency plans. The modifications also included recommendations that market participants periodically test their contingency plans, develop written protocols to determine when it is appropriate to safely reconnect with those impacted by a cybersecurity event, and engage in industry-wide testing initiatives. The TMPG members had no objections to the proposed updates. The TMPG Chair noted that a press release announcing these updates would be published alongside the revised *Best Practices for Treasury, Agency Debt, and Agency Mortgage-Backed Securities Markets*. The Chair thanked the working group members for their contributions to this effort, marking the conclusion of the Operational Resiliency Working Group.

- The TMPG then discussed market developments since the October TMPG meeting including the outlook for the Treasury market for 2025, expectations for the path of the Fed's policy rate, and outlook for the year-end conditions in money markets, the Overnight Reverse Repo (ON RRP) Facility, and the Standing Repo Facility (SRF).

Outlook for Treasury Market for 2025

- Members were attentive to increases in Treasury yields following the U.S. presidential election outcome, notably in longer-dated tenors and the subsequent retracement across the Treasury yield curve. Members attributed the recent retracement to the time gap between the campaign and the implementation of actual policies, with the market currently in a "wait and see" phase.
- In 2025, members expect the Treasury yield curve to steepen amid policy rate cuts, a strong growth outlook, and expectations for upward pressure on term premium, with the market currently pricing in a no-landing scenario. Some members noted the risk that inflation might be sticky. In addition, members discussed the U.S. debt limit being reinstated on January 1, noting potential disruptions to the market. There was little consensus on how related developments might unfold.
- Members also discussed supply and demand dynamics in the Treasury Market, noting high and steadily growing trading volumes and overall good market function, despite some deterioration in liquidity conditions (off-the-run depth) relative to two years ago. Members remain attentive to increased Treasury issuance and whether the market will be able to absorb the supply.

<u>U.S. Macro Outlook and Expectations for the Path of Policy Rate</u>

- Members' expectation for the path of policy over 2025 generally aligned with the market pricing for fewer U.S. interest rate cuts relative to pre-election pricing. Members noted that, in addition to recent strong economic data and relatively hawkish Fed guidance, the pricing also reflects expectations for outcomes related to the new administration's policy proposals. Members broadly expect inflation expectations to increase due to potential tariffs and anticipated increases in labor costs. Meanwhile, members expect tax cuts and reduced regulations to have growth-positive impacts. Members generally observed that the U.S. interest rates probability distribution has shifted toward somewhat lower rate outcomes, although still ultimately dependent on future data outcomes.

<u>Expectations for Year-End Conditions in Money Markets</u>

- Members anticipated some pressures in funding markets as year-end approaches, attributing it to ongoing Fed balance sheet runoff and dealer balance sheet constraints. However, members highlighted that market participants are more attentive and prepared for the upcoming quarter end having experienced heightened funding pressures during the September quarter-end.
- Members were attentive to the decrease in the ON RRP usage, with some members highlighting the discussion of a five basis point technical adjustment in the November Federal Open Market Committee Meeting Minutes, noting that it might not materially impact demand for the ON RRP. Members also discussed the functioning of the SRF and improvements that, in their view, could increase its effectiveness, such as centrally clearing the SRF and adding an earlier SRF operation.

– The next TMPG meeting is *tentatively* scheduled for February 25, 2025, from 3:00-5:00 PM.