TMPG Meeting Minutes

Date: September 24, 2024

Location: Federated Hermes, 101 Park Avenue

TMPG attendees

Alberto Antonini (Tudor Investment Corp)
Richard Chambers (Goldman Sachs)
Qing Chen (Morgan Stanley)
Debbie Cunningham (Federated Hermes)
Sunil Cutinho (CME Group)
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)
John Madziyire (Vanguard)
Edward McLaren (Bank of America)
Andrea Pfenning (BNY)
Gerald Pucci (BlackRock)
Casey Spezzano (NatWest Markets)

New York Fed attendees

Anirudh Arikarevula
Adam Copeland
Ellen Correia Golay
Frank Keane
Vinuthna Kovvuri
Eric Lewin
Michelle Neal
Anna Nordstrom
Roberto Perli
Brett Rose
Agata Zhang

U.S. Department of Treasury attendees

Nellie Liang
Brian Smith

Board of Governors attendee

David Bowman

FINRA attendees[1]

Alie Diagne
Ola Persson

Office of Financial Research attendees[2]

Corey Garriott
Marc Shultz

- The meeting commenced with the TMPG Chair welcoming Nellie Liang, the Under Secretary for Domestic Finance at the U.S. Treasury Department. The Chair then introduced guest speakers from the Financial Industry Regulatory Authority (FINRA) and the Treasury's Office of Financial Research (OFR) to present on initiatives aimed at improving data quality and availability in the U.S. Treasury securities market. The Chair also reiterated the Group's own work in this space, pointing to the White Paper on Data Availability and Transparency in the U.S. Treasury Securities Market and Catalog of Data Available in the Treasury Cash, Futures and Financing Markets.

- FINRA representatives gave an overview of FINRA's recent dissemination of transaction-level data for on-the-run nominal Treasury coupon securities at the end of each trading day and historically. FINRA representatives noted that published transaction sizes for 2, 3, and 5-year notes are capped at $250 million, whereas 7- and 10-year notes and 20- and 30-year bonds are capped at $150 million and $50 million, respectively. In addition, historical data are released on a six-month lag and without caps. FINRA representatives then shared feedback they received from market participants regarding

[1] FINRA attendees left the meeting following the Overview of Changes to FINRA's TRACE Data Transparency presentation.

[2] OFR attendees left the meeting following Non-Centrally Cleared Bilateral Repo Data Collection presentation.

the use of the end-of-day data set since its dissemination began in March 2024. Specifically, market participants noted that the primary uses of the data include transaction analysis, best execution, and monitoring trading flows. FINRA representatives noted that the relatively slow uptake in subscriptions to the data and the limited application of the data for price discovery might be because the data is not provided in real-time. FINRA welcomed any additional feedback on the uses of the disseminated data.

- OFR representatives provided an update on OFR's non-centrally cleared bilateral repo (NCCBR) data collection. The presentation opened up with a brief overview of the OFR's mission to provide high-quality data, promote data standards, and perform research and analysis, followed by a walkthrough of the timeline of OFR's repo data initiatives over the past ten years. OFR representatives then turned to a discussion of repo markets, noting that the NCCBR remains the major repo segment lacking a transaction-level data source and that the NCCBR data collection will help close that gap. The presentation concluded by summarizing key aspects of the final rule, including who reports (covered reporters), what information to report, the timeline for reporting, and how to report. Member questions focused on repo market trends, the estimated number of covered reporters under the rule, and the onboarding process. OFR representatives encouraged members to direct NCCBR-related inquiries to NCCBR_General_Inquiries@ofr.treasury.gov and refer to the OFR's NCCBR reporting Frequently Asked Questions for more. TMPG members requested that OFR representatives return to the TMPG in advance of any plans regarding public release of this data.

- Members then transitioned to the **NCCBR Working Group** update. A New York Fed representative gave an overview of the initial draft of the NCCBR white paper, focusing on margin practices across various repo segments. The NCCBR Working Group Co-Chair then highlighted key recommendations from working group members to refine the draft. These included suggestions to highlight the benefits of margin collection and, to the extent data are available, provide information on size and growth of repo market segments. The NCCBR Working Group Co-Chair noted the topic of bilateral cross-portfolio margining led to diverse opinions among working group members. Some members noted the possibility that the zero-margin cited in the OFR's NCCBR pilot data collection could reflect portfolio margining, where margin is collected on other products sufficient to offset risks in the NCCBR trade. Concurrently, other members expressed concerns with bilateral cross-portfolio margining, such as incomplete cross-product netting agreements, inconsistencies in portfolio risk management across firms, and opaqueness of bilateral cross-product margin models, that might also be considered. Additionally, a concern was raised in the working group discussion that ad-hoc bilateral risk management can be influenced by commercial interest rather than be reflective of prudent counterparty or systemic risk management, and zero margin might reflect such a dynamic. TMPG members were encouraged to review the draft white paper and provide feedback to the TMPG Secretariat.

- In follow up to the discussion at the last TMPG meeting, the TMPG Vice Chair reminded members that the Group had previously agreed the FINRA Rule 4210 amendments were seen as complementary to, rather than in conflict with, the existing TMPG best practice recommendation on margining of agency mortgage-backed securities (MBS) transactions. The Vice Chair then reviewed proposed updates to the Frequently Asked Questions (FAQs) on Margining of Agency MBS Transactions intended to encourage market participants to take a risk-based approach when implementing the existing TMPG margining best practice recommendation. The Vice Chair also noted that a [press release](#) reaffirming TMPG's stance on two-way margin exchange would accompany the updated FAQ document. The TMPG members had no objections.

- Finally, the Co-Chair of the **Operational Resiliency Working Group** gave a brief update on the expanded member representation from various firms added to the working group over the summer. The Co-Chair then recapped working group's plans to review the TMPG's best practice recommendations related to risk management around service providers, critical venues, and clearing and settlement services in light of recent cyber events and widespread IT outages and service disruptions, and determine if modifications are needed.

- The TMPG then turned to a discussion of recent market developments. Members discussed their key takeaways from the September Federal Open Market Committee meeting, provided their reactions to recent cross-asset volatility in the Treasury market that occurred in early August, and shared thoughts around money market dynamics and expectations for the end of balance sheet runoff.

    - Members expressed differing expectations for the U.S. macro outlook. Some members believe in a material probability of a mild recession within the next 12-18 months, noting the next few U.S. payroll reports will be critical in determining how fast the labor market deceleration takes place. Other members pushed back on the forecast of heightened recession risk and expect the economy to achieve a soft landing, emphasizing that inflation is moving in a right direction and labor market concerns dictate a cautious approach.
    - Members viewed the Fed's 50 basis-point cut in U.S. interest rates as a proactive and prudent move, in light of progress in curbing U.S. inflation while addressing concerns about potential risk in unemployment.
    - Members attributed the temporary deterioration of Treasury market liquidity in early August to crowded positioning in carry trades and a fear of a possible U.S. recession triggered by a weaker-than expected Employment Situation Report. Members then offered views on why the Treasury market normalized quickly after heightened volatility. Members emphasized that the market was more prepared given banking stresses in March 2023 and the French snap elections in June 2024. Members also noted that high levels of excess reserves served as a shock absorber or a liquidity buffer, and suggested hedge funds may have been more proactive in their risk management of carry trades.
    - Discussion then turned to money market dynamics. Member expectations for the level of the Overnight Reverse Repo Facility (ON RRP) usage remained largely unchanged since the [last TMPG meeting.](#)
    - Members noted that certain users may have already reached or might be approaching their counterparty limits, which could potentially limit their ability to allocate out of the ON RRP facility. In members' view, these users might be generally less compelled to leave the facility as negotiating new standard repo agreements can be operationally complex. Members further observed that repo rates have stayed steady largely due to increase late-day trading, noting this new pattern supports some need for diversification away from the ON RRP.
    - With respect to balance sheet expectations, most members expect runoff to end in the first half of 2025 and the size of the SOMA portfolio to decline to around $6.5 trillion. Members also noted that the U.S. debt ceiling will reemerge as a key issue next year, which could introduce volatility to the markets.

- The next TMPG meeting is scheduled for October 22, from 3:00-5:00 PM.