TMPG Meeting Minutes
November 19, 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)
Steve Meier (State Street)
Sandra O'Connor (J.P. Morgan Chase)
Murray Pozmanter (DTCC)
Gerald Pucci (Blackrock)
Mark Tsesarsky (Citigroup)
Stu Wexler (ICAP)
Tom Wipf (Morgan Stanley)

FRBNY attendees

Joshua Frost
Glenn Haberbush
Frank Keane
Lorie Logan
Susan McLaughlin
Susmitha Thomas
Janine Tramontana
Nate Wuerffel

U.S. Treasury Department attendees

James Clark

- The meeting commenced with an acknowledgement of the many contributions to the TMPG made by departing member Art Certosimo from Bank of New York Mellon.

- The TMPG then discussed recent market developments, including financial market reactions to the October FOMC meeting and expectations for market function over year-end, including views on the impact of announced changes to the Federal Reserve's reverse repurchase agreement exercises. Members generally agreed that the addition of a term exercise over the year-end was likely to ease money market pressures.

- Members also discussed the events of October 15, and noted a variety of factors that likely contributed to the heightened volatility observed that day. Some members noted that the week started with a general negative risk sentiment which may have exacerbated financial market reaction to a weaker-than-expected retail sales number released on the morning of October 15. The unwind of crowded trades by leverage investors also appeared to be a factor at play on October 15 and likely contributed to price action when – as interest rates sharply fell – many investors moved to stop losses on positions that were predicated on a rise in U.S. interest rates. In addition, the group discussed the fact that the rapid transmission of shocks across markets could be indicative of the widespread use of automated and high-frequency trading systems in cash markets by a broad range of market participants. Some members also suggested that regulatory changes over the last couple of years may have resulted in a reduced ability or willingness by dealers to assume proprietary positions or to intermediate large positions particularly in volatile periods. The TMPG agreed to continue discussion of the events of October 15 at future meetings and consider whether the event might call for new best practices in light of the changing Treasury market structure.

- Members then turned to a discussion of three topics related to tri-party repo (TPR), beginning with an update on a proposed DTCC fee for late completion of centrally cleared GCF repo trades. It was noted that this proposal, which is expected to support TPR reform work by providing an incentive for the earlier receipt of TPR funds, would involve charging fees for funds that are not received by 4:30 pm. The committee was also informed that the proposed fee is expected to vary based on the time at which funds are ultimately received, and that DTCC would charge an additional fee for overnight funding shortfalls. Finally, it was noted that any rule changes necessary to implement the late fees would be subject to regulatory approval.

  Members then briefly discussed DTCC's proposal to provide broader central clearing of GCF repo to registered investment companies that are cash providers. Some members noted that increased central clearing of repo may help reduce fire-sale risk. It was noted that this proposal is also subject to regulatory approval.

  Members then turned to discussion of the use of joint trading accounts (JTA) in TPR trades. Members noted that JTAs may contribute to certain efficiencies in the TPR matching and confirmation processes, but that they may also be a disincentive to early settlement, and that these delays could lead to increased counterparty credit risk management concerns. Members agreed to further discussion of this topic at future TMPG meetings.

- The TMPG then received an update from a working group formed to study the use of reference rates relevant to TMPG covered markets. Working group members made note of a survey that is under development, for TMPG member firms, to inform the reference rate case studies for the fed funds open rate, 10:00 a.m. volume weighted average repo rates, and aggregate bond market indices. Working group members also made note of the Bank of England's Fair and Effective Markets consultation document, which might help inform the TMPG's considerations.

- The TMPG then received an update from a working group formed to review high-speed electronic trading in TMPG covered markets. The working group noted progress with a draft white paper on this topic and noted that the group continues to consider practice recommendations designed to mitigate potential risks to covered markets function and liquidity. Members also suggested that the TMPG white paper could include a discussion of the events of October 15 and whether high-speed electronic trading contributed to the volatility observed that day.

- TMPG members then reviewed summary statistics related to its agency MBS margining recommendation, which remained in line with the statistics reported at its October meeting. Members agreed to continue to review these statistics on a quarterly basis in 2015.

- The next TMPG meeting will take place on Tuesday, January 13, from 4:00-6:00 PM.