Treasury Market Practices Group

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TMPG Overview

- The Treasury Markets Practices Group (TMPG) was first established in 2007 to address questionable practices in the Treasury market. Its scope was expanded in 2010 to also include agency debt and agency mortgage-backed securities (MBS) markets.
  - The TMPG currently covers the asset markets where the New York Fed implements monetary policy.
- The Group's **mandate** is to support the integrity and efficiency of its covered markets, i.e. the Treasury, agency debt, and agency MBS markets.
- The TMPG
  - Develops and promotes best practices related to trading, clearing, settlement, and risk management activities.
  - Discusses recent market developments and provides insights to the New York Fed and the U.S. Treasury.
  - Monitors potential impacts on TMPG-covered markets from evolution in market structure and practices.
- The Group may also establish standing subcommittees or working groups to focus on specific issues, each with its own Chair.

TMPG Structure

- The New York Fed sponsors the TMPG, selects its members, and designates a Chair and Vice Chair.
  - The Chair represents and communicates the views of the TMPG.
  - Members are appointed for 2-year terms but may be re-appointed for additional terms.
- Designed to ensure fair representation and consideration of diverse perspectives and interests within the TMPG-covered markets.
  - Members include senior business managers and legal and compliance professionals from various institutions, including securities dealers, banks, buy-side firms, market utilities, and other central banks.
  - Members should also have sufficient authority within their respective firms to engage with senior management, to direct resources to support the TMPG's activities, and to drive their institutions' endorsement of proposed TMPG actions, best practices, or other recommendations.
  - New York Fed and U.S. Department of Treasury representatives also serve as ex-officio members and technical advisors on the TMPG.
- Meeting Logistics
  - The Group meets seven times annually, with additional ad hoc meetings scheduled as needed. Working Groups also meet as needed.
  - TMPG meeting agendas, minutes, and announcements are posted on the TMPG website in a timely manner to promote transparency with the broader public.

Current TMPG Members

CURRENT MEMBERS

Casey Spezzano, Chair
NatWest Markets

David Finkelstein, Vice Chair
Annaly Capital Management

Alberto Antonini
Tudor Investment Corp

Richard Chambers
Goldman Sachs

Qing Chen
Morgan Stanley

Debbie Cunningham
Federated Hermes

Sunil Cutinho
CME Group

David Flowerdew
Millennium Management

Matthew Franklin-Lyons
J.P. Morgan

Doug Friedman
Tradeweb

Lara Hernandez
Mirae Asset Securities

Makoto Kasai
Bank of Japan

Laura Klimpel
Depository Trust & Clearing Corporation

Serena Lin
Mizuho Securities

John Madziyire
Vanguard

Edward McLaren
Bank of America Merrill Lynch

Adam Nunes
Hudson River Trading

Andrea Pfenning
BNY Mellon

Gerald Pucci
BlackRock

Marc Seidner
PIMCO

FEDERAL RESERVE BANK OF NEW YORK (EX-OFFICIO)

Agata Zhang
TMPG Secretary

Anirudh Arikarevula
Markets Group

Ellen Correia Golay
Markets Group

Frank Keane
Markets Group

Eric Lewin
Legal Group

Michelle Neal
Markets Group

Anna Nordstrom
Markets Group

Roberto Perli
Markets Group

Brett Rose
Markets Group

Janine Tramontana
Legal Group

U.S. TREASURY DEPARTMENT (EX-OFFICIO)

Brian Smith
Deputy Assistant Secretary
Federal Finance

TMPG Member Responsibilities

TMPG members, as supported by their institutions, are expected to:

- “Leave firm hat at the door”- Support the Group’s aim of enhancing overall market integrity, rather than advancing individual or firm interests.
- Abide by the best practices for Treasury, agency debt and agency MBS markets, including those recommended by the TMPG.
- Recognize strategic opportunities to improve the stability, efficiency, and integrity of covered markets, and flag items for Group discussion or official attention.
- Marshal the resources necessary to support the TMPG’s activities.
- Engage firms’ senior management as necessary to solicit endorsement of proposed actions, and follow best practices, or other recommendations.
- Attend meetings in person and be prepared to discuss recent market trends at each TMPG meeting.

TMPG Best Practices

- The TMPG develops and maintains best practice recommendations intended as guidelines, rather than binding rules or regulatory guidance, for active market participants in the wholesale Treasury, agency debt, and agency MBS markets.
- The best practices encourage market participants to:
  - Promote efficient and transparent markets to support liquidity and integrity – e.g. promoting price and broader information transparency, and avoiding trading strategies that hinder market clearance and integrity.
  - Identify and develop policies and procedures to appropriately use and handle confidential information to promote trust and confidence between market participants.
  - Establish and maintain robust control environments to manage exposure to a variety of legal and reputational risks.
  - Manage large positions responsibly to avoid market disruptions.
  - Develop market practices that support safe, efficient, and timely clearing and avoid unnecessary market congestion.

Antitrust Guidelines

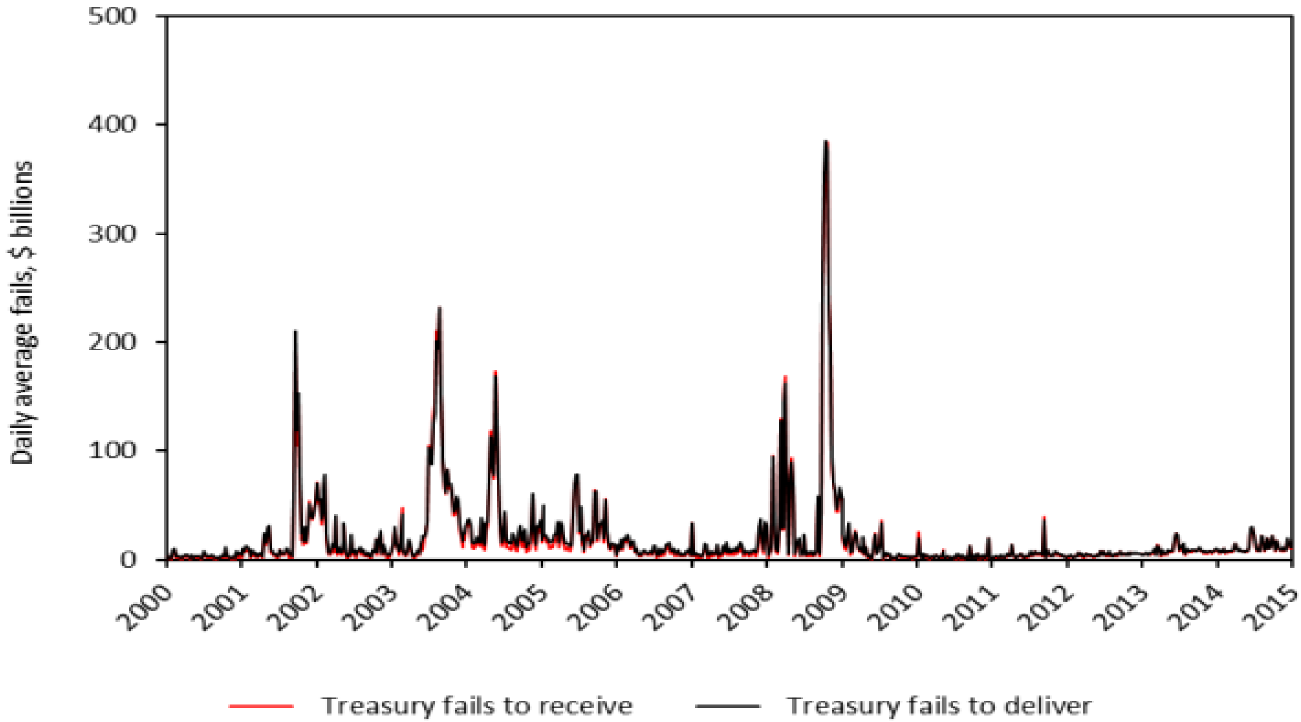
- Adherence to a set of antitrust guidelines is mandatory for TMPG members, to ensure that conduct does not appear or become anticompetitive and complies with Federal and State antitrust laws. The guidelines are annually reviewed.
- New York Fed participation is not a shield from antitrust liability for TMPG members. Members are responsible for self-policing and for the antitrust implications of their words and actions.
- General rules include:
  - Members should not share non-public, competitively sensitive information. If there is a need to collect this information, New York Fed staff will collect and distribute it in an aggregated and anonymized format.
  - Market color discussions are allowed among members but are not confidential. There is no privilege that applies to what has been said.
  - Best practices and standard-setting are permissible, but committee work cannot be designed to exclude participants from the market. For example, the committee cannot agree collectively not to trade with market participants that do not adopt committee-sponsored best practices. Individual members or firms, however, are free to adopt their own practices.

Early Notable Accomplishments

TMPG Fails Charge

- Treasury Settlement Fails Charge Introduced
  - The explosive increase in settlement fails following the failure of Lehman Brothers –to a daily average volume of nearly $400 billion by mid-October 2008 convinced the TMPG that it had to pursue functional, rather than behavioral remedy.
  - On November 12, 2008, the TMPG endorsed several measures intended "to remediate the prevalence of widespread and persistent fails and to prevent their recurrence," including the adoption of a ***novel fails charge***.
  - The proposed fails charge was intended to replace the long-standing convention that the only cost to a seller of failing to deliver securities on the originally contemplated settlement date of a trade was the loss of interest on the proceeds due upon delivery.
- Agency Settlement Fails Charge
  - In early 2010, the TMPG announced work on a settlement fails charge for agency debt and agency MBS.
  - Following a rising level of fails in MBS throughout 2010, the TMPG published the final version of a fails charge in July 2011 with an effective date of Feb 2012.

Settlement Fails in U.S. Treasury Securities.



Source: The Treasury Market Practices Group: Creation and Early Initiatives

TMPG Margining of Agency MBS

- The forward-settling nature of most agency MBS transactions exposes trading parties to counterparty credit risk between trade and settlement.
  - In November 2012, the TMPG published a recommendation that forward-settling agency MBS transactions be subject to two-way margin to prudently manage counterparty exposures. This effort proved to be a much larger lift than settlement fails given required infrastructure and legal documentation.
    - When both parties are subject to counterparty credit risk, exchanging variation margin two ways will help protect both parties if the market value of the transaction in deliverable securities fluctuates.
  - The matter was picked up the Securities Exchange Commission (SEC) in 2016 when it approved a rule proposed by the Financial Industry Regulatory Authority (FINRA) requiring that FINRA members (all of whom are broker-dealers), collect margin from their counterparties on unsettled To-Be-Announced trades.
  - In September 2024, the TMPG reaffirmed its long-standing best practice recommendation for two-way margin exchange across the range of forward-settling agency MBS transactions as an effective mitigant for credit and systemic risk in light of the implementation of amendments to FINRA's Rule 4210 on Margin Requirements which became effective in May 2024.

More Recent Notable Accomplishments

Clearing and Settlement for U.S. Treasury Transactions

- The TMPG updated its *Best Practices* to incorporate recommendations on clearing and settlement practices in the secondary market for U.S. Treasury securities. It encouraged market participants to carefully consider these recommendations and apply rigorous evaluation of the highlighted risk. (July 2019).
- The TMPG issued detailed maps illustrating clearing and settlement processes for the U.S. Treasury secondary market (July 2018) and for common securities financing transaction (SFT) types for Treasuries (November 2022).
- The TMPG issued white papers describing the various clearing and settlement arrangements for U.S. Treasury secondary market transactions (Final July 2019) and SFTs (Final November 2022).
  - The white papers outline key risks to consider and manage regarding clearing and settlement amid various changes to the Treasury Market in the last two decades - the increased use of advanced technology by execution venues, widespread use of automated trading strategies, and the emergence of new types of market participants.

Data Availability and Transparency

- Data availability and transparency in the Treasury Market are important because
  - Treasury data is used by the official sector for market monitoring and market surveillance, which promote fair, orderly, and efficient markets, support the U.S. Treasury's efforts to issue securities at the least cost over time, and facilitate effective monetary policy implementation.
  - The data is also useful for market participants for information on prices, flows, positions, and market conditions, and supports price discovery, market efficiency, and market fairness.
- In March 2023, the TMPG issued a catalog of data available in the Treasury cash, futures, and financing markets. The TMPG also published a white paper that considered principles for data availability and transparency, assessed data gaps in light of these principles, and recognized ongoing efforts to close the gaps, including but not limited to:
  - Enhanced collection of Treasury Market data through TRACE and proposal to release transactions data for certain securities.
  - The Office of Financial Research's (OFR) 2022 pilot data collection on non-centrally cleared bilateral repurchase agreements (repos).
  - Ongoing efforts to at least partially address gaps in flows/positions data in the cash and financing markets.

Current Work

TMPG Priorities in 2024

TMPG Priorities	
Working Group	• Non-Centrally Cleared Bilateral Repo Risk Management Working Group – continue to study risk management practices around non-centrally cleared bilateral repo.
Topics in Focus	• Actively engage on topics related to recent rulemaking, such as the SEC's expansion of central clearing for U.S. Treasury cash and repo transactions, the SEC's dealer registration rule, and the implementation of FINRA Rule 4210 for agency MBS margining. Assess the ongoing impact of these and any future regulations on TMPG covered markets. • Review TMPG *Best Practices* related to risk management around service providers, critical venues, and clearing and settlement services in light of recent cyber events.
Outreach & Engagement	• Engage with SIFMA and other industry groups on implementation of rulemaking. • Collaborate with relevant regulatory authorities, as needed. • Communicate, where applicable, through public engagements and conduct outreach.

Non-Centrally Cleared Bilateral Repo (NCCBR) Working Group

- The NCCBR Working Group was established in 2023 to study risk management practices around non-centrally cleared bilateral repo, a follow-up effort related to findings from the TMPG's 2022 white paper on "Clearing and Settlement in the Market for U.S. Treasury Secured Financing Transactions."
- That same year, the TMPG conducted outreach to a subset of market participants on their risk management practices.
  - Results of the outreach were similar to those of OFR's pilot data initiative from 2022.
- The NCCBR Working Group is currently drafting a white paper, with a chief focus on a careful review of margining practices across different repo segments.
  - The draft white paper has been circulated to the TMPG for feedback and discussion (see September TMPG meeting minutes for more information).

Operational Resiliency Working Group

- The TMPG recently created an Operational Resiliency Working Group to evaluate TMPG's existing best practice recommendations related to internal controls and risk management around key service providers, critical venues, and clearing and settlement services, given the challenges posed by recent cyber security events and operational disruptions.
- The Working Group's goal is to review the relevant TMPG best practice recommendations (sample excerpt below) and determine if any modifications are warranted.

Best Practices
FOR TREASURY, AGENCY DEBT,
and AGENCY MORTGAGE-BACKED
SECURITIES MARKETS

11. **Market participants should recognize that risk from any disruption that could have a systemic impact on service providers, critical venues, or clearing and settlement services—including "cyber risk" originating outside market participant firms—is a risk that the market holds jointly.** Since external cyber risk is faced by all market stakeholders, participants should endeavor to work together in industry forums and cooperate with official sector efforts to mitigate and manage such risks. Cyber risk can also be an internal risk that firms address based on the nature of their market operations and engagement.

Expansion of Central Clearing in U.S. Treasury Market

Expansion of Central Clearing in the U.S. Treasury Market

- In December 2023, the SEC voted to significantly expand central clearing in the Treasury market.
- The rule requires that the following transactions be centrally cleared:
  - All repo and reverse repos to which a direct member of the central clearing agency (CCA) is a counterparty.
  - All purchases and sales occurring over inter-dealer brokers.
  - All purchases and sales between a direct CCA member and a registered dealer or government securities dealer.
    - Transactions where one counterparty is a central bank, a sovereign entity, an international financial institution, or a natural person are excluded.
    - Additionally, repos between a direct participant and a state and local government or another clearing organization or inter-affiliate transactions are excluded.
- The TMPG will continue to monitor the non-centrally cleared segment of the Treasury cash and repo market during this transition, with a focus on repo risk management practices.

Expansion of Central Clearing in the U.S. Treasury Market (continued)

- Implementation of the SEC's rule will move the vast majority of repo, reverse repo, and cash trades on interdealer brokers into central clearing.
- Based upon an <u>industry survey</u> conducted by DTCC's Fixed Income Clearing Corporation, over $4 trillion of repo and cash trades are expected to move into central clearing.
- Cash Treasury clearing is required to occur by year-end 2025 and repo clearing is required to occur by mid-2026.
- Benefits:
  - Reduced settlement flows and thus reduction in settlement fails.
  - Consistent and robust risk management practices.
  - Increased visibility into the clearing and settlement of the Treasury market by the official sector.
- Costs
  - Necessitates many changes needed to technology, legal documents, and practices to facilitate this change.
  - Higher explicit costs associated with trading for some market participants (e.g. margin).

Expansion of Central Clearing in the U.S. Treasury Market (continued)

- There are several considerations to take into account around how central clearing is implemented in the U.S. Treasury market
  - For more information, see "Central Clearing in the U.S. Treasury Market: The Why and the How." Speech by Michelle Neal, Head of the Markets Group of the New York Fed, October 15, 2024.
- Client Clearing Access Models
  - The current Treasury market practice is for central clearing and execution to be bundled together. This is referred to as "done-with" clearing, since the trade is done with the dealer that sponsors it into central clearing.
  - However, "done-away" clearing, where clearing services are provided by a clearing provider when the trade was not executed with that institution, is viewed as necessary to migrate the volume of trades expected into central clearing.
- Margin Practices
  - A benefit of central clearing is the consistent collection of margin. However, the current use of initial margin in the Treasury repo market is inconsistent.
  - The TMPG's NCCBR Working Group will be critical to helping investigate this issue further.
- Prospect for Additional CCPs
  - Currently, FICC is the only CCP in the U.S. Treasury market. However, CME, ICE, and LCH have all expressed possible interest in operating CCPs in the U.S. Treasury market.

Questions?

- **Contact Information**

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