John C Williams: Ten years gone

Remarks by Mr John C Williams, President and Chief Executive Officer of the Federal Reserve Bank of New York, at the 10th Annual US Treasury Market Conference, Federal Reserve Bank of New York, New York City, 26 September 2024.

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As prepared for delivery

Introduction

Welcome, everyone. Thank you for joining us. And a special thank you to those who make today's event so powerful: the distinguished speakers, panelists, and event organizers. We have a packed agenda on a variety of important topics, and I look forward to hearing about the progress we've made and priorities for the future.

Ten Years Gone

Today marks our tenth annual U.S. Treasury Market Conference, and a decade of partnership between our agencies. These conferences have proven to be a valuable forum to share insights and perspectives on the evolution of the Treasury market, identify challenges and risks to smooth market functioning, and, most importantly, discuss ways to enhance its resilience and effectiveness in both good times and bad times.

The New York Fed is proud to host this conference each year. It *leverages*-sorry, I realize that leverage is not a popular word in this crowd-it *draws upon* our strength as a convener of market participants, academics, policymakers, and central bankers. Today, I'll take a look at how our interagency collaboration has strengthened our understanding of Treasury market resiliency and that of adjacent markets. And I'll talk about the importance of continuing this work over the next decade and beyond. I will also share some news about our ongoing commitment to ensuring that our financial system continues to stand on a strong foundation of sound reference rates.

Now, let me give the standard Fed disclaimer that the views I express today are mine alone and do not necessarily reflect those of the Federal Open Market Committee (FOMC) or others in the Federal Reserve System.

Stairway to the Annual Conference

Let's think back to the middle of October 2014, when U.S. Treasury yields plunged and then quickly rebounded, an episode later named the "flash rally."

This episode was an impetus for the drafting of a joint staff report that ultimately led to the inaugural U.S. Treasury Market Conference in 2015.[1] That conference first brought together what is now known as the "Joint Member Agencies" to discuss the evolving structure of the Treasury market. That meeting focused on potential operational risks, regulatory requirements, and repo market considerations.[2] It drew about 300 people-an impressive figure for the first year. I know that some who participated in that conference are here again today.

The organizers recognized that it would be important to have a regular forum to address developments in the Treasury market and adjacent markets, in order to continue to study structural issues and explore ongoing developments as a way to prevent disruptions to the system.

To be clear, attention on the function of the Treasury market didn't start in 2015. In fact, if you read Fed history-a genre of literature that I particularly enjoy-it's clear that the importance of Treasury market functioning was central to the Federal Reserve and the New York Fed for a long time. But what became apparent in more recent times was that as the markets evolved, the need for formal joint-agency collaboration and engagement with the private sector became more pressing.

When the Levee Breaks

What drives all of our efforts-from staff reports, to conferences, to actions, and all the communication in between- is that liquid, well-functioning markets for Treasury and related securities are absolutely essential for credit to flow and the economy to prosper.[3] It's not an overstatement that a well-functioning U.S. Treasury market is critical to our economy, and, in fact, to the entire world.[4]

The Song Remains the Same

What are some of the themes that we've discussed at these conferences, and what's been the impact on our financial system?

Let's take a look back at that first joint staff report. It made the case on two notable fronts. First, it highlighted that principal trading firms played a much larger role in the electronic trading market than was previously understood. Second, it highlighted the need for improved transparency and increased availability of Treasury market data.

Ten years gone, the song remains the same. Those themes are still at the forefront of our conversations. For example, while principal trading firms still continue to be a big presence in the Treasury market, hedge funds now also play an important role. The work monitoring the changing investor base and participant types continues through this forum and the work of the Inter-Agency Working Group on Treasury Market Surveillance and the Financial Stability Oversight Council.

On the data side, we've made tremendous progress toward increased data transparency with the Trade Reporting and Compliance Engine (TRACE) data initiative. And we've seen efforts to further increase the transparency of this data to the public. In March of this year, TRACE began publishing daily transaction data on on-the-run securities at the end of the day. In fact, at this very podium last year, I said that we must continue to prioritize transparency and clarity in financial data, especially in the age of AI, when the sources of data are harder to ascertain.[5]

I'd be remiss if I did not mention expanded central clearing as another key theme that has emerged over the years. This is a major shift that is an outgrowth of our work. We'll hear more about that in a panel discussion later today, and I look forward to the continued progress the market will make on this front as we move toward the implementation deadlines of the SEC's clearing rule.

What Is and What Should Never Be

Before I cede the stage, I will end on a topic that is at the core of the financial system and closely connected to the Treasury market: reference rates. Thankfully, we have said good riddance to LIBOR, and our financial system is now resting on a safe and solid foundation.

I know I promised not to bring up LIBOR again at this conference. But the LIBOR saga taught us all two important lessons. First, enormous systemic risk can build in the global financial system gradually over time, and second, it took a complex, expensive, decade-long effort to fix that problem. We must not repeat that experience.

To that end, I am pleased to announce that today, the Federal Reserve Bank of New York is launching the Reference Rate Use Committee, or RRUC. It will convene private market participants to support integrity, efficiency, and resiliency in the use of interest rate benchmarks-or reference rates-across financial markets, including the rates published by the New York Fed. Its first meeting will occur in October.

The RRUC will focus on key issues regarding reference rates, including how their use is evolving and how the markets underpinning them may be changing too. It will promote best practices related to the use of reference rates, including the recommendations set out by the Alternative Reference Rates Committee (ARRC) during the transition away from LIBOR.[6] In this way, the RRUC will serve as an essential partnership that builds upon the work and accomplishments of the ARRC, by helping to preserve a robust system of reference rates. This work will complement international efforts at the Bank for International Settlements and the Financial Stability Board to monitor developments in the use of interest rate benchmarks and ensure that we never have to face a problem like LIBOR again.[7]

Bring It On Home

I will now bring it on home. We are now at the bridge to the next 10 years of the U.S. Treasury Market Conference. Although there has been significant progress, the growth and evolution of this market remind us of the importance of staying focused on this work and continuing to make progress in the years ahead. In an era of heightened uncertainty and volatility, it is essential that the U.S. Treasury market remain liquid and resilient, so that all financial markets can operate effectively. If you were ever in doubt of how important this is, the experience of the past several years should convince you otherwise.

Thank you, and I look forward to today's conference, and to another decade of partnership and success.

[1] U.S. Department of the Treasury, Board of Governors of the Federal Reserve System, Federal Reserve Bank of New York, U.S. Securities and Exchange Commission, and U. S. Commodity Futures Trading Commission, Joint Staff Report: The U.S. Treasury Market on October 15, 2014, July 13, 2015.

[2] Conference Summary, "The Evolving Structure of the U.S. Treasury Market," held at the Federal Reserve Bank of New York, October 20-21, 2015.

[3] John C. Williams, A Solution to Every Puzzle, Remarks at the 2020 U.S. Treasury Market Conference, Federal Reserve Bank of New York, September 29, 2020.

[4] John C. Williams, A Jack of All Trades Is a Master of None, Remarks at the 2022 U.S. Treasury Market Conference, Federal Reserve Bank of New York, November 16, 2022.

[5] John C. Williams, Elementary, Dear Data, Remarks at the 2023 U.S. Treasury Market Conference, Federal Reserve Bank of New York, November 16, 2023.

[6] Federal Reserve Board, Federal Reserve Bank of New York: Alternative Reference Rates Committee

[7] Financial Stability Board, Final Reflections on the LIBOR Transition, July 28, 2023.