TMPG Meeting Minutes
November 20, 2013

TMPG attendees

Julia Coronado (BNP Paribas)
Daniel Dufresne (Citadel)
Brian Egnatz (HSBC)
Michael Garrett (Wellington)
Beth Hammack (Goldman Sachs)
Curt Hollingsworth (Fidelity)
Jim Hraska (Barclays)
Mark Tsesarsky (Citigroup)
Stu Wexler (ICAP)
Tom Wipf (Morgan Stanley)
Matt Zames (J.P. Morgan)

FINRA attendees

Peter Tennyson
Grace Vogel
Bill Wollman

FRBNY attendees

Vic Chakrian
Joshua Frost
Frank Keane
Lorie Logan
James Narron
Simon Potter
Roman Shimonov
Susmitha Thomas
Janine Tramontana
Nate Wuerffel

- Representatives from the Financial Industry Regulatory Authority (FINRA) provided an overview of a draft proposed rule[1] under consideration by FINRA to establish margin requirements aligned with and informed by the TMPG's best practice recommendation for forward-settling agency MBS transactions.
    - FINRA representatives highlighted that the proposed rule would require bilateral margining of the same categories of forward-settling agency mortgage-backed security (MBS) transactions as those covered by the TMPG recommendation.
    - FINRA representatives also noted that the proposed rule would include specific requirements covering issues such as minimum transfer amounts, cure periods and counterparty exemptions. In addition, FINRA representatives noted that the proposed rule would require the collection of maintenance (or initial) margin from non-exempt accounts.
    - The Group commended FINRA on its efforts and emphasized the importance of continued dialogue between market participants and FINRA representatives as the complementary initiatives moved forward.

- The TMPG then turned to a discussion of feedback received on its best practice recommendation to margin forward-settling agency MBS transactions.
    - The Group reaffirmed its recommendation that market participants substantially complete the process of margining forward-settling agency MBS exposures by December 31, 2013.

[1] FINRA's Board subsequently authorized FINRA to publish a *Regulatory Notice*) soliciting comment on proposed amendments to FINRA Rule 4210 (Margin Requirements) to establish margin requirements for To Be Announced (TBA) transactions, Specified Pool Transactions, and transactions in Collateralized Mortgage Obligations (CMOs), with extended settlement dates (referred to broadly as the TBA market). See: http://www.finra.org/Industry/Regulation/Guidance/CommunicationstoFirms/P401515

- Members then discussed a request to harmonize the definition of forward settling across all covered transactions (to-be-announced (TBA), specified pool and adjustable-rate mortgage (ARM) transactions) to greater than T+3. The Group agreed to leave the definition of forward settlement unchanged, in light of the large volume of TBA activity that takes place two days before the standard settlement dates. The Group added that CMO transactions are less ready substitutes for TBA trades and pointed to the standard settlement cycle of T+3 for secondary trading in the spot CMO market.
- Members also discussed feedback that some market participants have been having difficulty obtaining agreement from all counterparties to implement the margining practice recommendation. The Group agreed that the best practices call for margining wherever there is counterparty exposure. Further, members noted that its best practice recommendation is not unlike best practices in other markets like the swaps market where market participants manage such risks through the use of collateral agreements and that counterparties that engage in margining for other markets should engage in margining of forward settling agency MBS transactions as well.
- Members then reviewed summary statistics showing progress to date and expected progress by year-end among TMPG members for the implementation of the margining practice recommendation. It was reported that as of November 15, TMPG member firms had, on average, covered roughly half of their notional trading volume (non-MBSCC) and that members estimated that by year-end they would, on average, expect to cover nearly 80 percent of their notional trading volume (non-MBSCC).

– The TMPG then discussed the possible publication of a white paper that would provide guidance on potential operational practices in the event of a delayed payment on a Treasury security.
  - Members agreed that market participants could benefit from a technical reference that examined potential operational, trading, and settlement practices, previously discussed by the group, and included in its June 28, 2012 meeting minutes, in order to support market liquidity in the event of a delayed payment. In addition, it was noted that the TMPG might provide clarity on common vocabulary used to describe various terms related to such a scenario to help facilitate further industry discussions.
  - A staff member of the Federal Reserve Bank of New York then provided an overview of the operational aspects of principal and interest payment processing for the Fedwire® Securities Service. The TMPG agreed that it would be helpful to market participants if such operational details were part of the potential white paper.

– The Group then discussed industry efforts to handle the financing of one-day-to-maturity securities in the tri-party repo market. Members suggested that these were ongoing discussions and the TMPG agreed to continue to monitor progress by industry groups.

- Members then reconfirmed their firms' operational readiness for Treasury's first FRN auction, which is expected to occur in late January 2014. The Group also noted that most market participants expect to include this new security type in general collateral financing transactions.

- The meeting then concluded with a discussion of recent market developments, focused principally on reactions to the Federal Open Market Committee's October meeting minutes and the recent functioning of the Treasury, agency debt, and agency MBS markets.
    - Some members noted the release of minutes from an October 16 FOMC video conference, including the discussion of the possible treatment of Treasury securities in Federal Reserve operations in the event Treasury was temporarily unable to meet its obligations because the statutory federal debt limit was not raised, which they suggested might reduce uncertainty and and be useful for market participants making contingency plans.

- Members agreed to hold a teleconference on December 5, 2013 from 2:00 to 3:00 pm to discuss a potential white paper related to potential operational practices the market could adopt in the event of a delayed payment on a Treasury security, and to review progress towards implementing the TMPG's agency MBS margining practice recommendation.

TMPG Teleconference Meeting Minutes – *December 5, 2013*

TMPG attendees

Daniel Dufresne (Citadel)
Brian Egnatz (HSBC)
John Fath (BTG Pactual)
Michael Garrett (Wellington)
Beth Hammack (Goldman Sachs)
Jim Hraska (Barclays)
Murray Pozmanter (DTCC)
Gerald Pucci (BlackRock)
Nancy Sullivan (BNY Mellon)
Mark Tsesarsky (Citigroup)
Stu Wexler (ICAP)
Tom Wipf (Morgan Stanley)

FRBNY attendees

Joshua Frost
Frank Keane
Lorie Logan
Simon Potter
Susmitha Thomas
Janine Tramontana
Nate Wuerffel

- On December 5, the TMPG held a teleconference to further discuss two items before year-end: a draft white paper related to potential operational practices the market could adopt in the event of a delayed payment on a Treasury security, and to review progress towards implementing the TMPG's agency MBS margining practice recommendation.

- Members reviewed a draft white paper (outlined during the meeting on November 20) that provides guidance on potential operational practices in the event of a delayed payment on a Treasury security, and provided feedback on this document.

- The Group then discussed its best practice recommendation to margin forward-settling agency MBS transactions.
    - Members reviewed summary statistics for TMPG member firms, which had increased slightly from previously reported averages and demonstrated continued progress with implementing the margining recommendation. As of November 29, 2013, TMPG member firms, on average, had covered about half of their notional trading volume (non-MBSCC) and expect to cover about 80 percent of their notional trading volume (non-MBSCC).
    - The above estimates suggested to all members that most market participants are actively engaged in negotiations to implement the best practice recommendation and expect that these negotiations will be substantially complete by year-end. Members stressed the importance of the terms of written agreements being subject to good faith negotiations and consistent with the prudent management of counterparty risk.
    - Members were encouraged by an increased focus on implementation across market participants and agreed that most of their counterparties were on track to substantially complete the process of margining forward-settling agency MBS exposures by December 31, 2013. The TMPG agreed to continue to monitor implementation progress on a weekly basis.

- The next TMPG meeting will take place on Wednesday, January 15, from 3:00-5:00 PM.