TMPG | Treasury Market Practices Group

**Draft Recommended Agency Debt Securities**
**Fails Charge Trading Practice**
April 29, 2011

The Treasury Market Practices Group (TMPG) is committed to supporting the integrity and efficiency of the agency debt market. Widespread, persistently elevated fail levels in the agency debt market create market inefficiencies, increase credit risk for market participants and heighten overall systemic risk. The TMPG is recommending a fails charge trading practice for the agency debt market with the objective of reducing the incidence of delivery failures.

<u>Applicability of a fails charge</u>
The recommended fails charge trading practice for the agency debt market would be applicable to debentures issued by Fannie Mae, Freddie Mac and the Federal Home Loan Banks.

A fails charge would be applicable on failing securities regardless of whether they are related to purchase, repo, securities lending, option or forward transactions. A fails charge would not be applicable on transactions where delivery is not against the payment of funds or the transfer of securities (i.e., where there is a free delivery).

<u>Calculation of the fails charge</u>
As with the Treasury charge, the recommended agency debt fails charge would accrue on each calendar day in the period from and including the date of the delivery failure to, but excluding, the date the delivery failure is resolved. The charge for each day would be calculated according to the following formula:

$$C = \frac{1}{360} \times 0.01 \times \text{Max}(3 - R, 0) \times P$$

| | | | |
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| where: | C | = | fails charge amount |
| | R | = | the TMPG reference rate at 5:00pm New York time on the preceding business day, in percent per annum (the current TMPG reference rate is the Federal Open Market Committee's current target level for the federal funds rate, or the lower limit of the FOMC's target band) |
| | P | = | settlement proceeds |

<u>Fails charge claims and payment</u>
A failing party would not be subject to a fails charge if the cumulative charge over the life of the delivery failure is less than or equal to $500.

Non-failing parties would provide notice to the failing party of the amounts owed by the $10^{th}$ business day of the month following the month in which the fail is resolved. Failing parties would make full payment of all fails charges by the last business day of the month following the month in which the fail is resolved.

Participation in the trading practice

All trading practices published by the TMPG are recommendations only.

The Fixed Income Clearing Corporation (FICC) would plan to submit a rule filing to the Securities and Exchange Commission amending its rules to subject its members to a substantially similar fails charge in the event its members fail to deliver Fannie Mae, Freddie Mac or Federal Home Loan Bank debentures for settlement through FICC.

Members of the public may submit comments on this recommended trading practice by Friday, June 10, 2011, to tmpg@ny.frb.org.