TMPG Meeting Minutes
May 2, 2012

TMPG attendees

Art Certosimo (BNY Mellon)	Beth Hammack (Goldman Sachs)	Joerg Stephan (Deutsche Bundesbank)
Daniel Dufresne (Citadel)	James Hraska (Barclays Capital)	Stu Wexler (ICAP)
Brian Egnatz (HSBC)	Curt Hollingsworth (Fidelity)	Tom Wipf (Morgan Stanley)
John Fath (BTG Pactual)	Jerry Pucci (BlackRock)	Matt Zames (J.P. Morgan)

FRBNY attendees		Treasury Department attendee
David Finkelstein	Lorie Logan	Colin Kim
Josh Frost	Nate Wuerffel	
Peggy Kauh	Michael Nelson	
Frank Keane	Brian Sack	

- The meeting commenced with a review of current market conditions, including a discussion of events in Europe and the market reaction to the FOMC's policy statement from the April 24-25 meeting. In addition, a representative from the Treasury Department provided a brief overview of the announcement in the *May 2012 Quarterly Refunding Statement* that the Treasury continues to analyze the significant amount of feedback received on the possibility of issuing floating rate notes (FRNs), including the benefits and optimal terms of Treasury FRNs. The Treasury representative noted that the Treasury plans to announce its conclusion about the issuance of FRNs at a later date.

- In the March 22 TMPG meeting, the Group decided to explore potential practices to support trading, settlement, and operational processes in the event of a delayed payment on Treasury debt. The Group continued that discussion at this meeting.
  - The Group noted that the debt ceiling events in the summer of 2011 had highlighted the importance of this issue. Members also noted that a delayed payment could arise from circumstances other than those observed last summer, including system failures, terrorist attacks, and natural disasters. Members confirmed that the focus of this exploration would be technical in nature, addressing some of the operational challenges that could arise during such an event.
  - Members highlighted that, while no solution exists that could eliminate the adverse operational consequences of a delayed payment on Treasury debt, the market could adopt standards to decrease some of the operational risk associated with such circumstances and to provide greater clarity to help support market functioning. The Group decided to avoid making any collective judgements about the potential consequences of a payment delay on financial markets more broadly, although some members pointed out that these consequences would be severe.
  - The members discussed a potential practice under which Treasury securities affected by a delayed payment could continue to trade and be transferred in such circumstances. Recognizing that a security ceases to be operationally transferable over the Fedwire Securities system once its maturity date is reached, the potential practice involves lengthening in Fedwire the maturity date field of any affected security by one day at a time until the delay is resolved. The Group noted that Fedwire and many industry systems could likely accommodate this practice as long

as the increase of the maturity date field occurred prior to the close of Fedwire on the day before scheduled maturity. Members noted that while increasing the maturity date field would allow a security to continue to be transferred, it would not change the legal maturity date of the security.

- The Group then discussed appropriate settlement conventions associated with a practice of lengthening the maturity date field. Specifically, the Group suggested that paying any delayed principal payments to the holder as of the close of business the day before the actual payment is made, and paying any delayed interest payments to the holder of record as of the close of business the day before the originally scheduled coupon payment date, would allow most systems to continue to track the proper settlement proceeds of trades with reduced manual intervention.
- The Group identified several trading and operational challenges that would be presented by the practice, including the need to coordinate quoting conventions for securities affected by the delay. Members also noted that some existing systems would need to be modified in advance to accommodate such a practice.
- The members concluded by noting that, while the practice described above would not remove the operational risk associated with a delayed payment, such a practice might be preferable to the alternative of allowing securities with delayed payments to become immobilized, as would occur if the maturity date field were not lengthened. The Group noted that the potential practice would not be feasible under some circumstances--specifically, ones that would not allow for a lengthening of the maturity date field before the close of Fedwire on the day prior to maturity--in which case the security would not be transferrable on Fedwire. The Group noted that it planned to continue to review the topic at future meetings.

- Given time constraints, the Group agreed to postpone discussion of the market impact of the agency debt and agency MBS fails charges, as well as an update from the working group reviewing margining practices for to-be-announced agency MBS transactions, until the next meeting.

- The next TMPG meeting will take place on **Wednesday, May 30, 4:00 – 6:00 PM**.