

TMPG Meeting Minutes

January 17, 2013

TMPG attendees

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

FRBNY attendees

Vic Chakrian	Frank Keane	Janine Tramontana
David Finkelstein	Lorie Logan	Nate Wuerffel
Josh Frost	Susan McLaughlin	
Peggy Kauh	Simon Potter	

- The meeting commenced with the annual review of the TMPG’s governance documents, specifically the [Charter](#) and [Antitrust Guidelines for the Members of the TMPG and Associated Working Groups](#).
- The discussion turned to recent market developments, including year-end trading activity and current money market conditions, financial market reaction to FOMC communications related to the December meeting, and the outlook for the evolution of U.S. fiscal policy:
 - Members discussed some of the industry’s efforts concerning operational processes that could be used to support trading and settlement in the case of a delayed payment on Treasury debt, noting that these efforts incorporated concepts considered earlier by the TMPG.¹ Members also relayed that industry associations have been working with market participants to review different operational scenarios to support potential trading and settlement practices in the event of a payment delay; this has included testing systems to roll maturity dates forward one day at a time and developing work-arounds, such as “replaying” a matured security into various systems which are necessary to support continued trading and transferability in the case that notice of a delayed payment is made beyond the time at which the maturity date may be rolled forward.
- The Group then focused on “lessons learned” in the aftermath of Hurricane Sandy:
 - Some members commented that industry participants are pursuing enhancements to business continuity and emergency response plans. It was noted in particular that the Securities Industry and Financial Markets Association (SIFMA) has established a working group to focus on improving the industry’s contingency planning strategy, including developing guidance on handling cross-market coordination and communication practices in a timely and transparent manner during emergency events.

¹ For additional details on the TMPG’s previous discussions, see the June 28, 2012 meeting minutes: www.newyorkfed.org/tmpg/meeting_0628_2012.pdf.

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- The Group agreed to consider future opportunities where the TMPG could help promote more robust business continuity practices for the industry.
- Members then discussed efforts related to achieving more timely three-way trade confirmation in the tri-party repo market:
 - The Group reviewed the [SIFMA Tri-party Repo Best Practice Recommendations](#), released in November 2012, which advises market participants to strive to confirm 90 percent of trades by 3:00 PM to ensure an orderly start to tri-party settlement processing at 3:30 PM. After some discussion on the drivers for late-day trading activity and the potential risk posed to settlement processing in the tri-party repo system, the Group observed that trades executed after 3:00 PM may need further review, as the benefits associated with late-day trades appear to be outweighed by the systemic cost of less efficient tri-party repo market settlement and clearing.
 - The Group agreed to continue to consider whether there are additional best practice recommendations that could be promoted to support systemic risk reduction in tri-party repo markets.
- The Group then discussed agency MBS settlement fails and whether modifying the two-day resolution period or the level of the fails charge, or both, would be appropriate to further mitigate the systemic risk associated with settlement fails:
 - Members noted that the level of settlement fails has declined over recent weeks, though it still remains modestly above levels observed following the implementation of the agency MBS fails charge trading practice.
 - The Group resumed its discussion of whether the two-day resolution period was still needed, given that the outstanding level of settlement fails is now significantly lower, many firms have implemented automated fails charge claim processes, and the operational burden has proven to be manageable. In addition, it was noted that settlement fails data shared by several TMPG members, which was aggregated by the FRBNY, suggested that the resolution period may be negatively impacting settlement behavior in the market and actually encouraging a higher level of initial fails (as a percent of total expected settlement) and a slower cure rate, compared to past periods when short-term interest rates were around two percent. Several members also remarked that the data could suggest that some market participants may be using the resolution period as an opportunity to “sort the box,” a practice in conflict with TMPG best practice guidance.
 - Some members suggested the fails charge rate may not provide a sufficient incentive to promote delivery given changes in the agency MBS market, including the development of more significant premiums on securities with favorable prepayment characteristics.
 - The Group then considered any necessary modifications to technology, operational or resource requirements related to implementing a change to the resolution period or the recommended fails charge rate. Members agreed to evaluate how much time

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would be required for back offices to implement a change to the resolution period or the fails charge level in the future.

- The meeting ended with a brief recap from several TMPG members who received feedback from a subgroup of SIFMA members on the TMPG's [best practice recommendation](#) to margin forward-settling agency MBS transactions, which was announced on November 14:
 - It was noted that SIFMA raised challenges related to the proposed implementation date of early June 2013, as well as concerns about the potential impact to market dynamics, the scope of the best practice and several other issues.
 - Although members expressed interest in continuing a discussion with SIFMA, members noted that the TMPG had previously weighed many of these issues, including the implementation date, during prior deliberations.

- The next TMPG meeting will take place on Thursday, February 28, from 3:00-5:00 PM.