TMPG | Treasury Market Practices Group

Frequently Asked Questions: Proposed Modifications to the TMPG Fails Charges

The following frequently asked questions refer to the Treasury Market Practices Group (TMPG) proposed modifications to the recommended fails charges for U.S. Treasury, agency debt and agency mortgage-backed securities (MBS) settlement fails. Please refer to the TMPG website for information on the current TMPG fails charges.

Q1. Why is the TMPG proposing a floor to the level of the recommended fails charge for U.S. Treasury securities, agency debt and agency MBS?

The TMPG is proposing to modify the existing fails charge to include a floor to the level of the fails charge in order to keep operational processes well-oiled and to address operational concerns. These include operational inefficiencies associated with turning operational collection processes and systems off and on, and other start-up and shut-down costs. An introduction of a floor to the level of the recommended fails charge would resolve these issues by maintaining operational processes independent of the level of rates.

Q2. How does the existing fails charge operate?

The amount charged for a failure to receive securities on a given day is currently computed according to the following formula:

$$C = 1/360 * 0.01 * \max(B - R, F) * P$$

C = total fails charge amount, in U.S. dollars
B = 2 (for an agency MBS transaction), or
B = 3 (for a U.S. Treasury or agency debt transaction)
R = TMPG reference rate in percent per annum[1] (currently 1.25)
F = Floor (currently 0)
P = total trade proceeds due from buyer, in U.S. dollars

Q3. How will the fails charge operate with the proposed one percent floor?

The TMPG is proposing to modify the current practice by setting a floor (F) of one percent on the level of the fails charge.

$$C = 1/360 * 0.01 * \max(B - R, F) * P$$

[1] The current TMPG reference rate is the target federal funds rate specified by the Federal Open Market Committee (FOMC) or the lower limit of the target range specified by the FOMC if the Committee specifies a target range in lieu of a target rate (see: http://www.newyorkfed.org/markets/omo/dmm/fedfundsdata.cfm)

Where F = a floor of 1

By way of example, the revised formula would result in the following outcomes:

Example 1: Assume R = 1.25 percent. For a Treasury or agency security the formula would include the calculation of max (3 - 1.25, 1) and result in a charge of 1.75 percent per annum. For an agency-MBS security, it would include the calculation of max (2 – 1.25, 1) and result in a charge of 1 percent per annum.

Example 2: Assume R = 2.5 percent. Here the Treasury and agency formula would include the calculation of max (3 - 2.5, 1) and result in a charge of 1 percent per annum. For an agency-MBS fail, the formula would include the calculation of max (2 – 2.5, 1) and result in a charge of 1 percent.