

## TMPG Meeting Minutes

January 14, 2016

### TMPG attendees

Zahir Antia (Bank of Canada)	James Hraska (Barclays)	Gerald Pucci (Blackrock)
Julia Coronado (Graham Capital)	Gary Kain (American Capital Agency)	James Slater (BNY Mellon)
James DeMare (BAML)	Steven Meier (State Street Global Advisors)	Mark Tsesarsky (Citigroup)
Dan Dufresne (Citadel)	Sandra O'Connor (JPM)	Stuart Wexler (ICAP)
Beth Hammack (Goldman Sachs)	Murray Pozmanter (DTCC)	Thomas Wipf (Morgan Stanley)

### FRBNY attendees

Nashrah Ahmed	Frank Keane	Brett Rose
Michelle Ezer	Michael McMorrow	Janine Tramontana
Josh Frost	Radhika Mithal	Nate Wuerffel
Christina Getz	Simon Potter	

### Federal Reserve Board attendees

Laura Lipscomb	Fabio Natalucci
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### U.S. Department of Treasury attendee

James Clark

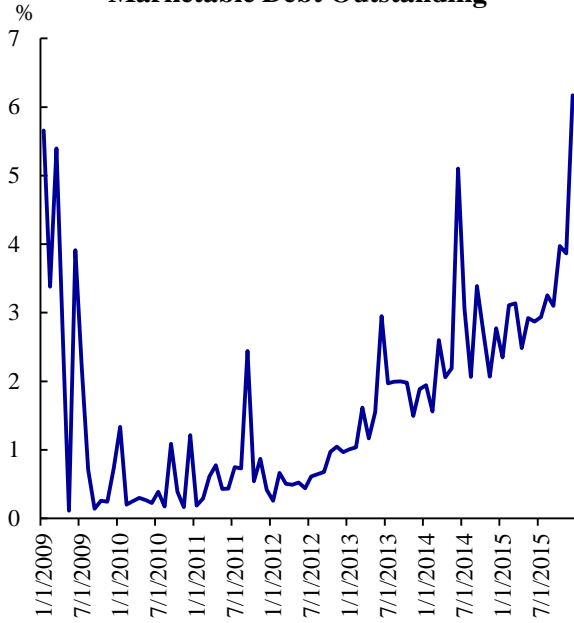
- The meeting commenced with the annual review of the TMPG's [Antitrust Guidelines for the Members of the TMPG and Associated Working Groups](#). The Chair informed TMPG members that going forward aggregate summary statistics related to the [agency MBS margining recommendations](#) would be communicated via email. Federal Reserve staff noted it periodically reviews the TMPG's membership composition to help meet the needs of the group, as described in the [Charter](#). Members were invited to recommend candidates for membership consideration.
- Next, the TMPG discussed the gradual but steady increase in settlement fails associated with Treasury securities—predominantly in seasoned issues—and reviewed the charts attached in Appendix 1. Members attributed the increase to several factors, including heightened demand to transact in Treasury securities relative to substitutable derivative products such as swaps, and the shortage of aged securities in dealer inventory due to increased balance sheet costs. It was noted that the duration of the fails, typically very brief, mitigated associated credit risks as described in a recent New York Fed [blog](#). Members discussed whether the current threshold levels of 3 and 2 percent for the Treasury and MBS fails charge, respectively, continued to be appropriate in light of the increase in fails. The TMPG thought they were likely still appropriate, and agreed to continue to monitor settlement fails developments and reevaluate the threshold fails charge levels if necessary.

The TMPG also discussed the definition of the reference rate used in calculating the Treasury and MBS settlement fails charge. The Group agreed that the effective date of change to the reference rate should be aligned to the effective date of change to the target federal funds rate (or range) as announced by the Federal Open Market Committee. There was consensus to revise the relevant text of the [trading practice documentation](#) and add a new FAQ to provide greater clarity.

- TMPG members were reminded that the public comment period for receiving feedback on the proposed updates to the best practice recommendations to address the use of financial benchmarks was extended to February 12. Members were provided an update on the joint RMA-SIFMA-TMPG working group’s efforts to coordinate the work on evaluating potential alternatives to the ICAP Fed Funds Open (FFO). It was noted that the RMA had conducted some preliminary analysis of the suitability of various alternative rates, including the ICAP Hourly Effective Fed Funds Rates (HEFFRs), target fed funds rate, and DTCC GCF rate, but had not yet come to any final recommendations. The TMPG was also informed that ICAP planned to stop publication of the FFO, the various HEFFRs and other hourly effective rates. ICAP was interested in the TMPG’s feedback on the recommended lead time to stop publication of the rates to mitigate market disruption. In the ensuing discussion, members’ initial view was that a minimum of three months was necessary to implement a change after the industry recommends a substitute rate for the FFO. The TMPG agreed to continue refining its thinking on this matter and to work with the industry’s effort to find an alternative to the FFO progresses.
- The TMPG then discussed its ongoing and potential future priorities. Members were broadly supportive of initiating work on developing best practice guidance around information handling. TMPG members also agreed to further explore the following topics with a view to potentially developing best practice guidance: trading practices where additional guidance would be useful, data and transparency, and market structure changes (see detailed descriptions in Appendix 2).
- Lastly, the TMPG discussed recent market developments, including views on money market functioning post-December FOMC and year-end, expectations for trading conditions for shorter-dated Treasury bills in the new short-rate environment, and the potential implications of recent currency, commodity, and equity market developments for global markets.
- The next TMPG meeting is scheduled to take place on Tuesday, February 23<sup>rd</sup>, 2016 from 4:00-6:00 PM.

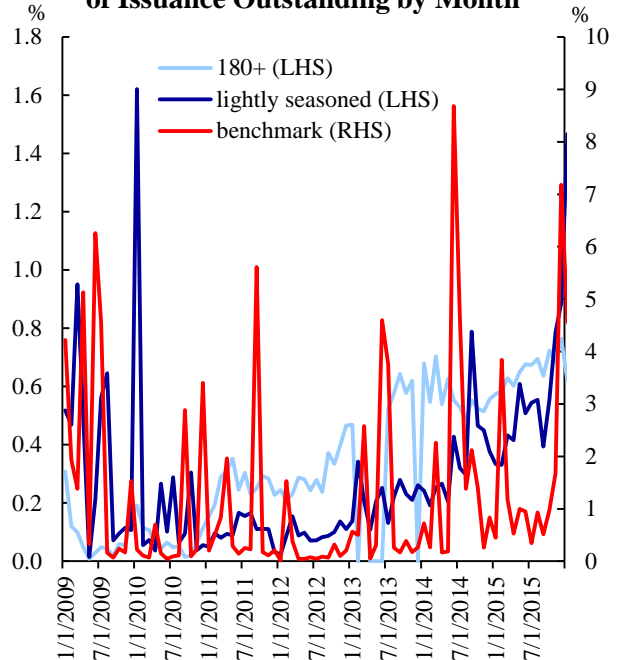
## REVIEW OF SETTLEMENT FAILS IN TREASURY MARKET

**Aggregate Monthly Treasury Fails-to-Deliver As a Percent of Treasury Marketable Debt Outstanding**



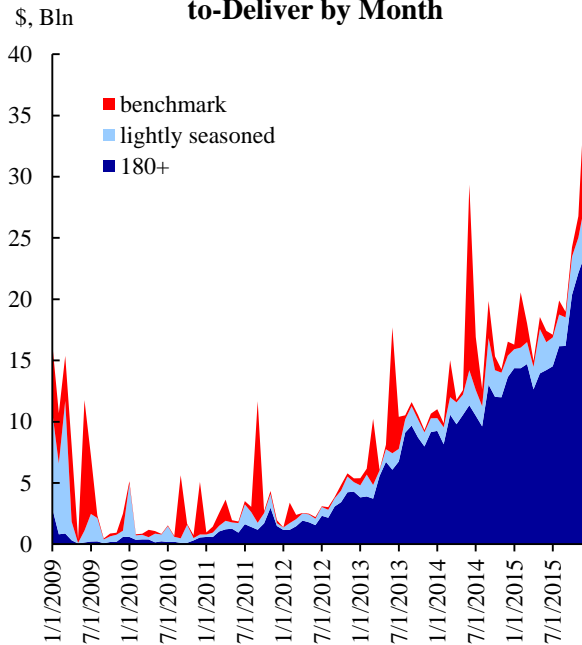
Source: DTCC-Depository Trust & Clearing

**Average Daily Fails-to-Deliver As a Percent of Issuance Outstanding by Month**



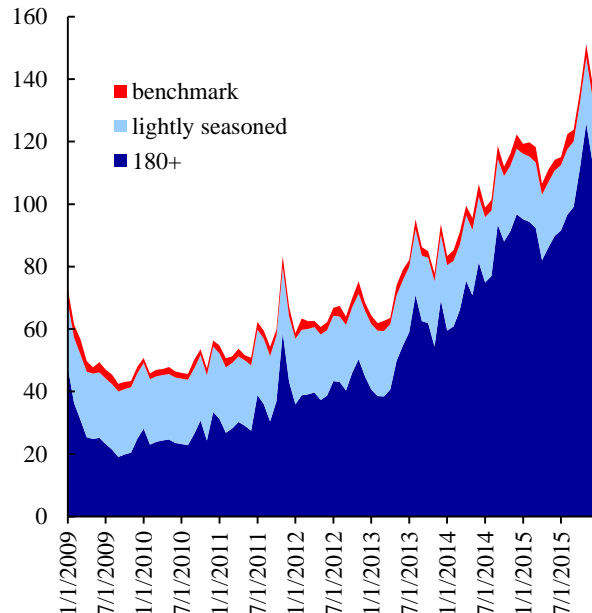
Source: DTCC-Depository Trust & Clearing

**Average Daily Treasury Fails-to-Deliver by Month**



Source: DTCC-Depository Trust & Clearing

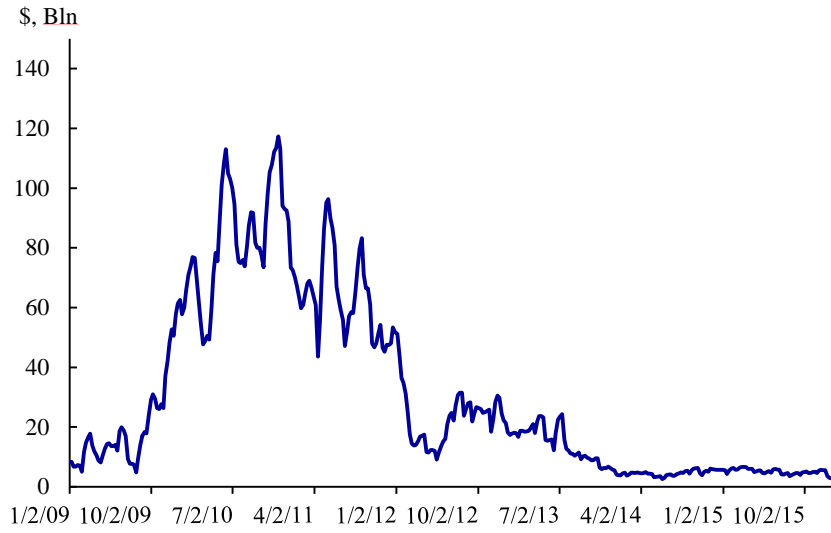
**Average Daily Count in Treasury Fails-to-Deliver by Month**



Source: DTCC-Depository Trust & Clearing

# REVIEW OF SETTLEMENT FAILS IN MBS MARKET

## Agency MBS Fails to Deliver\*



Source: FR2004 Survey, \* 4-week moving average of daily agency MBS

## TREASURY MARKET PRACTICES GROUP 2016 POTENTIAL FUTURE PRIORITIES

### Current Priorities

- Finalize best practice recommendations on the use of benchmarks in TMPG covered markets
- Work with industry groups that are seeking to identify alternatives to the fed funds open
- Begin developing best practice guidance around information sharing and handling

### Ongoing Priorities

- *Long-term priorities:*
  - Continue analyzing the drivers for changes in liquidity in TMPG covered markets
  - Continue to seek to enhance data transparency for TMPG covered markets
  - Consider reassessment of the structure of the recommended Treasury and agency MBS fails charge rates
- Continue to encourage alignment of FINRA rules on margining forward settling transactions to TMPG best practice guidance
- Continue encouraging industry business continuity preparedness across TMPG covered markets, including SIFMA's initiatives on crisis communication and response, geographic resiliency, and dependence on common service providers

### Potential Future Priorities

- ***Trading practices***
  - Consider guidance around certain market practices including last look, time-stamping of TBD or market on close transactions, and pre-hedging among others
- ***Data and transparency***
  - Evaluate possible new sources of data available to market participants on Treasury markets
- ***Market structure changes***
  - Examine clearing and settlement risks arising from PTF activity or changes in market structure
  - Understand the impact of repo CCP proposals on covered markets (*longer-term*)
  - Consider issues around transition to a single security for the TBA market (*longer-term*)