TMPG Meeting Minutes
May 24, 2016

TMPG attendees

Zahir Antia (Bank of Canada)
Dan Dufresne (Citadel)
Deirdre Dunn (Citigroup)
Beth Hammack (Goldman Sachs)
James Hraska (Barclays)
Gary Kain (American Capital Agency)
Steven Meier (State Street Global Advisors)
Murray Pozmanter (DTCC)
Gerald Pucci (Blackrock)
Thomas Wipf (Morgan Stanley)

FRBNY attendees

Nashrah Ahmed
Josh Frost
Frank Keane
Michael McMorrow
Radhika Mithal
Jamie Pfeifer
Simon Potter
Brett Rose
Janine Tramontana
Nate Wuerffel

U.S. Department of Treasury attendee

James Clark

- The meeting commenced with a welcome to new member Deirdre Dunn from Citigroup.

- The members were reminded that the TMPG issued a press release on May 4 supporting the Risk Management Association (RMA) and the Securities Industry and Financial Markets Association's (SIFMA) recommendation to replace the use of the ICAP Fed Funds Open (FFO) as a financial indicator with a rate that is more consistent with international best practice standards. Members were informed that following the publication of RMA-SIFMA and TMPG's press announcements, ICAP, the publisher of the FFO, had decided to push the deadline to discontinue publication of the FFO from July 28 to October 1, 2016.[1]

- The TMPG then reviewed developments in settlement fails. New York Fed staff provided a summary of the key takeaways from responses to a survey conducted across the TMPG membership to understand the possible drivers of the recent increase in settlement fails in the Treasury market (see details in the Appendix). It was noted that some of the data suggests that some trades, if they fail, may be falling below the minimum fails charge threshold, and thus may lack the economic incentive for timely delivery. The Group noted that the TMPG currently recommends (a) an exemption for accrued fails charges of less than or equal to $500 on fails in U.S. Treasury securities and agency debentures, on a per trade basis and (b) an exemption for aggregated fails charges of less than or equal to $500 on agency MBS fails between two counterparties for a given calendar month. It was also noted that, although the TMPG has

[1] On June 2, SIFMA and RMA issued a follow-up press release announcing the extension of FFO deadline. The Fed Funds Open is a rate published by ICAP and is not related to the effective fed funds open (EFFR) published by the New York Fed.

previously indicated that it believes that the ideal threshold for fails charges is zero for all market participants, these minimum thresholds were designed to facilitate the adoption of the fails charge trading practices and minimize the associated operational burden. Further, the TMPG had stated that it would revisit the threshold if the threshold led to unexpectedly large asymmetries or materially undermined the pass-through of the fails charge. In the ensuing discussion, TMPG members considered possible options to curb the rise in settlement fails, including:

a. moving to a $500 exemption for aggregated cumulative fails per counterparty per month for fails in Treasury and agency debt securities (similar to the current practice for fails in agency MBS); or
b. moving to a zero threshold for failing to settle transactions across all the TMPG-covered markets (Treasury securities, agency debt and agency MBS).

TMPG members agreed to seek feedback on the potential operational burden of the two options and the time required to make the associated adjustments. Additionally, to lessen any impact on outstanding trades members agreed to consider the appropriate time between announcement and implementation of changes in the exemption threshold. These matters will be discussed further at the next meeting.

– The TMPG received an update from New York Fed staff on the first phase of the work on the single Global Code of conduct for the wholesale FX market (Global Code) that sets out global principles of best practice in the FX market. Members were reminded that the FX Working Group, established by the BIS Markets Committee, worked in partnership with the private sector Market Participants Group to develop the Global Code. The TMPG was informed that the first phase of the Global Code covers best practices in areas such as ethics, information sharing, certain aspects of execution, and confirmation and settlement. The second phase will cover further aspects of execution including electronic trading and prime brokerage, governance, risk management, and compliance. The TMPG was also informed that the first phase of the Global Code and principles for adherence would be released on May 26, and that the full Code will be published in May 2017.[2] Members observed that the Global Code guidance on information sharing, confidentiality of information, and execution practices would be helpful in informing the TMPG's work around information handling.

- Next, the TMPG working group on information handling provided an update on its progress. It was noted that the working group continues to develop and analyze representative situations to inform the construction of best practice recommendations. Further, it was noted that the working group plans to compare any principles they initially develop against the Global Code guidance on information sharing and other relevant best practices for consistency, where

[2] The first phase of the global code of conduct for the FX market was published on May 26 on the BIS website, see here.

appropriate, and also compare against regulations to confirm that the principles provide supplementary guidance.

- The Treasury representative shared the broad themes that emerged from the responses to the Treasury's [Request for Information](#) (RFI) related to the changes in the structure and liquidity of the Treasury market.[3] Members were informed that there was widespread support by the respondents to the RFI for the collection of transaction data by the official sector; however, there were mixed views on the merits and nature of public dissemination of Treasury market data. The Treasury representative also noted that there was general support from respondents for broader participation in the central clearing of cash Treasury transactions. Finally, the representative noted support for continued focus on regulations applicable to principal trading firms (PTFs) and electronic trading platforms for Treasury securities.

  In the subsequent discussion, members briefly discussed areas where the TMPG's continued involvement may be useful. Members suggested that the TMPG continue to study the clearing and settlement practices and risks for cash Treasury market participants, including PTFs. Members also noted general support for regulatory trade reporting and discussed whether the TMPG should further explore issues around public trade reporting. It was observed that both these topics were consistent with the TMPG's priorities for 2016 (see Appendix 2 in January meeting minutes). Members agreed to continue the discussion at a future meeting.

- The TMPG then discussed recent market developments, including reactions to the April FOMC meeting, any realized market impact to date of the upcoming U.K. referendum on European Union membership, the potential implications of rising foreign holdings of U.S. Treasury and agency MBS securities, and developments ahead of implementation of money market reform.

- The next TMPG meeting is scheduled to take place on Tuesday, June 28th, 2016 from 4:00-6:00 PM.

[3] It was noted that the summary was consistent with remarks made by the Acting Assistant Secretary for Financial Markets, Daleep Singh, at a SIFMA conference that same day.

Appendix: <u>TMPG Settlement Fails Survey Response Summary</u>

Following the April TMPG meeting, the TMPG Secretariat distributed a survey to members to collect information on settlement fails to further analyze the recent trends. Twelve firms submitted responses. Below are the main takeaways from survey responses:

Please verify the degree of automation in your fails management processes. Are you able to discern, internally, trade sizes that would fall under the minimum threshold amount in case of a fail?

<u>Main takeaway:</u> A majority of the respondents have automated systems to manage fails and are able to identify trades that fall under the minimum threshold amount. Some processes are semi-automated and may require manual work to identify certain characteristics of fails.

Have structural changes impacted delivery failures? For instance, have triparty repo reforms impacted the movement of collateral (i.e., securities locked up earlier that cannot be sourced for delivery)?

<u>Main takeaway:</u> While a majority of respondents believed tri-party repo reforms have resulted in later return of collateral and some delays in settlement, the impact on settlements fails was viewed as insignificant. This was largely attributed to automated collateral substitution process that gives firms access to tri-party collateral.

Has termination of BNYM's intraday collateral loan facility impacted fails?

<u>Main takeaway:</u> A majority of respondents claimed the termination of BNYM's intraday collateral loan facility had minimal impact. A few firms noted some impact, typically due to the need for additional transactions to source specific securities to cover the small pieces of larger deliveries.

Is your firm witnessing a rise in volume of pair-offs due to overnight repo trades failing on the start leg?

<u>Main takeaway:</u> Most respondents did not witness a rise in the volume of pair-offs, though some noted a rise that was believed to be unrelated to the start leg. A few firms observed that repo pair-offs tend to rise when an issue is very scarce or experiencing settlement fails.

Is there any pattern on the type of counterpart failing in to you, or who you fail out to (i.e. real money, levered money, corporate, hedge funds, etc.)?

<u>Main takeaway:</u> Most respondents reported no apparent pattern in counterparties that are being failed to or are failing to them. Some did identify hedge funds and real money accounts as having shown an increase. Other observations included an increased use of collateral for collateral transactions that may cause a rise in fails as counterparties fail to return collateral on time.

If the TMPG decided to change or eliminate the minimum threshold amounts for the fails charge, how operationally feasible would it be for your institution?

<u>Main takeaway:</u> Many respondents viewed a change/elimination of the minimum threshold amount to be operationally feasible. Several noted that it could be expected to increase the operational work load and require more resources/personnel to manage a higher volume of claims. Some also reported observing a notable incidence of trades being broken into smaller pieces, exempting them from the charge for short fails.