

**Agency Debt Securities
Fails Charge Trading Practice Summary
June 28, 2011**

The Treasury Market Practices Group (TMPG) is committed to supporting the integrity and efficiency of the agency debt market. Widespread, persistently elevated fail levels in the agency debt market create market inefficiencies, increase credit risk for market participants and heighten overall systemic risk. The TMPG is recommending a fails charge trading practice for the agency debt market with the objective of reducing the incidence of delivery failures.

Applicability of a fails charge

The fails charge trading practice for the agency debt market is applicable to debentures issued by Fannie Mae, Freddie Mac and the Federal Home Loan Banks.

A fails charge is applicable on failing securities regardless of whether they are related to purchase, repo, securities lending, option or forward transactions. A fails charge is not applicable on transactions where delivery is not against the payment of funds or the transfer of securities (i.e., where there is a free delivery).

Calculation of the fails charge

As with the Treasury charge, the agency debt fails charge accrues on each calendar day in the period from and including the date of the delivery failure to, but excluding, the date the delivery failure is resolved. The charge for each day is calculated according to the following formula:

$$C = \frac{1}{360} \times 0.01 \times \text{Max}(3 - R, 0) \times P$$

where:

C	=	fails charge amount
R	=	the TMPG reference rate at 5:00pm New York time on the preceding business day, in percent per annum (the current TMPG reference rate is the Federal Open Market Committee's current target level for the federal funds rate, or the lower limit of the FOMC's target band)
P	=	settlement proceeds

Fails charge claims and payment

A failing party is not subject to a fails charge if the cumulative charge over the life of the delivery failure is less than or equal to \$500.

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Non-failing parties would provide notice to the failing party of the amounts owed by the 10th business day of the month following the month in which the fail is resolved. Failing parties would make full payment of all fails charges by the last business day of the month following the month in which the fail is resolved.

Participation in the trading practice

All trading practices published by the TMPG are recommendations only.

The Fixed Income Clearing Corporation (FICC) plans to submit a rule filing to the Securities and Exchange Commission amending its rules to subject its members to a substantially similar fails charge in the event its members fail to deliver Fannie Mae, Freddie Mac or Federal Home Loan Bank debentures for settlement through FICC.

Fails charge effective date

The TMPG recommends that the fails charge apply to transactions entered into on or after February 1, 2012, as well as to transactions that were entered into prior to, but remain unsettled as of, February 1, 2012. For transactions entered into prior to, and unsettled as of, February 1, 2012, the TMPG recommends that the fails charge begin accruing on the later of February 1, 2012, or the contractual settlement date.