

TMPG Meeting Minutes

February 16, 2012

TMPG attendees

Art Certosimo (BNY Mellon)	Murray Pozmanter (DTCC)	Stu Wexler (ICAP)
John Fath (BTG Pactual)	Jerry Pucci (BlackRock)	Tom Wipf (Morgan Stanley)
Beth Hammack (Goldman Sachs)	Joerg Stephan (Deutsche Bundesbank)	Matt Zames (J.P. Morgan)
Curt Hollingsworth (Fidelity)	Nancy Sullivan (BNY Mellon)	
James Hraska (Barclays Capital)	Mark Tsesarsky (Citigroup)	

FRBNY attendees

David Finkelstein	Lorie Logan	Josh Wright
Josh Frost	Brian Sack	Nate Wuerffel
Peggy Kauh	Sariah Toronto	
Frank Keane	Janine Tramontana	

Treasury Department attendee

Colin Kim

- The meeting commenced with a welcome to Peggy Kauh, the new TMPG Secretariat, and an acknowledgement of contributions made to the TMPG by the departing Secretariat, Sariah Toronto.
- The Group then turned to a discussion of recent market developments, including financial events in Europe. As part of this discussion, a representative from the Treasury Department provided a brief overview of the Treasury's announcement in the *February 2012 Quarterly Refunding Statement* that it was continuing to explore the possibility of issuing floating rate notes (FRNs). The Treasury representative noted that the Treasury continues to study the product's costs and benefits, and plans to announce a decision regarding whether to introduce FRNs at the May 2012 Quarterly Refunding.
- The Group's focus then shifted to the recently implemented agency debt and agency MBS fails charges:
 - o The Group reviewed FR2004 primary dealer settlement fails data before and after the recommended effective date of February 1, 2012. Members remarked that the level of fails fell dramatically approaching the effective date, and several members commented on their own observations of this trend. There was a general consensus that the fails charges appeared to have markedly reduced the level of settlement fails in agency debt and agency MBS, and that the two markets appeared to be functioning as they might in a higher-rate environment. Several members noted that implementing the fails charges required an increase in staffing at their firms.
 - o Some observed that a few agency MBS coupons have traded at more negative implied financing rate levels in the dollar roll market since the implementation of the fails charges, which most agreed was in line with expectations. Some participants

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- o noted that the FRBNY's dollar roll activity had helped moderate dollar roll volatility, and offered comments on the purpose and mechanics of the dollar roll transactions.
 - o Finally, it was agreed that the Group will continue to closely monitor the fails charge levels and settlement fails activity, and periodically evaluate the effectiveness of the fails charges.
- An update was then provided by a representative from the Treasury Department on the status of the IRS's regulations regarding the taxation of fails charges.¹
 - The working group formed to study margining practices for to-be-announced (TBA) agency MBS transactions then offered a brief update on their progress to-date:
 - o The group first discussed some potential consequences from margining TBA transactions, including accounting-related issues, counterparty concerns, and administrative complications involving private account charters. The working group reported that members did not believe that the consequences should prevent the TMPG from further assessing margining, and that liquidity in the TBA market would not be significantly impaired if margining were more widespread.
 - o The group also reported that it is preparing a summary of certain legal and operational issues associated with margining, which will be distributed to TMPG members. Additionally, the group has been in contact with SIFMA to inquire about their interest in updating the association's current standard form of master securities forward transaction agreement.
 - The group's attention shifted to a brief discussion of upcoming revisions to the FR2004 Primary Dealer reports, which should help to further transparency in the agency MBS and other markets.
 - The meeting closed with a brief conversation about the applicability of the TMPG fails charges to free delivery transactions. Given time constraints, the group agreed to postpone the discussion until the next meeting.
 - The next TMPG meeting will take place on **Thursday, March 22, 4:00 – 6:00 PM.**

¹ Note: On February 21, 2012, the IRS published a final regulation on the source of income received on a qualified fails charge in the *Federal Register*. The regulation may be viewed at the following website link: www.gpo.gov/fdsys/pkg/FR-2012-02-21/pdf/2012-3909.pdf.