TMPG Meeting Minutes
May 30, 2012

TMPG attendees

Art Certosimo (BNY Mellon)
Daniel Dufresne (Citadel)
Brian Egnatz (HSBC)
John Fath (BTG Pactual)
Michael Garrett (Wellington)
Beth Hammack (Goldman Sachs)
Murray Pozmanter (DTCC)
Joerg Stephan (Deutsche Bundesbank)
Nancy Sullivan (BNY Mellon)
Mark Tsesarsky (Citigroup)
Stu Wexler (ICAP)
Tom Wipf (Morgan Stanley)
Matt Zames (J.P. Morgan)

FRBNY attendees

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

Treasury Department attendee

Colin Kim

- The meeting commenced with a discussion of the agency debt and agency MBS fails charges that went into effect on February 1, 2012:
  - Members remarked that agency debt and agency MBS fails levels remain low and observed no material issues with regards to the fails charge collection process for February and March settlement fails.
  - Discussion shifted to the Depository Trust & Clearing Corporation's (DTCC) new central counterparty (CCP) for mortgage-backed securities which began operation on April 2. A representative from the DTCC provided brief highlights of the MBS CCP's performance to date, indicating that the CCP has achieved a significant reduction in the gross settlements associated with settling MBS trades. Members noted that the CCP's launch led to a considerable decrease in the operational work involved with processing agency MBS trades and fails charges.
  - The Group agreed to continue monitoring settlement fails activity in the agency debt and agency MBS markets, and to periodically evaluate the effectiveness of the fails charge practices.

- The Group then turned to discuss the operational, legal and financial implications of margining forward-settling agency MBS transactions:
  - Members of the working group that was formed to study margining practices for agency MBS transactions provided an overview of the challenges associated with implementing a broad margining regime, including start-up operational and technology costs, legal costs to amend and execute margin agreements with counterparties, and resource constraints.
  - After some discussion, the Group concluded that these issues did not outweigh the benefits of reducing counterparty credit risk exposure in the agency MBS market. Moreover, several members highlighted that the appreciable volume of unmargined agency MBS trades poses a systemic risk if one or more market participant were to default on their forward-settling agency MBS positions. The Group agreed to move

forward with developing a best practice recommendation around the margining of forward-settling agency MBS transactions.
  - Members also agreed to enlist SIFMA's support at the onset of the Group's efforts, particularly around the adoption of robust legal agreements between counterparties to support widespread implementation of a margining practice. The Group agreed to work with SIFMA to review possible updates to the current SIFMA *Master Securities Forward Transaction Agreement*.
  - Several members also agreed to assist with drafting enhancements to the TMPG's existing *Best Practices for Treasury, Agency Debt, and Agency Mortgage-Backed Securities Markets* related to the use of margining. To further support the Group's effort, members suggested that the TMPG author a white paper to elaborate on the risks posed by unmargined agency MBS trading and how margining could help mitigate such exposures.
  - Finally, the Group agreed to continue to discuss any implementation challenges associated with the widespread use of a margining regime.

- The Group's focus then shifted to a discussion of potential practices to support trading, settlement, and operational processes in the unlikely event of a delayed payment on Treasury debt:
  - The Group reaffirmed its view that while no comprehensive solution exists that could eliminate all of the adverse operational consequences of a delayed payment on Treasury debt, the potential practices discussed at the prior meeting could help support market functioning and reduce some of the operational risks[1].
  - Members also discussed several trading and operational challenges that would be presented by the potential practices, including the fact that a number of participants would have to modify existing systems well in advance of a delayed payment scenario in order to support the potential practices.

The meeting ended with a brief discussion of the outlook for domestic financial markets and the economy, given recent economic data and developments in Europe.

- The next TMPG meeting will take place on **Thursday, June 28, 4:00–6:00 PM**.

[1] See May 2, 2012 minutes at http://www.newyorkfed.org/tmpg/meetings.html