TMPG | Treasury Market Practices Group

June 10, 2015

TMPG Releases Updated Best Practice Guidance to Address Automated Trading

The Treasury Market Practices Group (TMPG) today updated the existing *Best Practices for Treasury, Agency Debt, and Agency Mortgage Backed Securities Market* by incorporating recommendations related to automated trading in TMPG covered markets. The TMPG believes that these updates will provide guidance for market participants to promote the integrity and efficiency of TMPG covered markets in light of the growth in automated trading.

Over the last decade, automated trading in the Treasury market has grown significantly and is now central to the market's structure, playing a crucial role in the efficiency and liquidity of the market. This development has helped reduce costs and increase efficiency for many market participants, helping them to more effectively carry out transactions and manage risk. Increased adoption of automated trading has also raised a number of important concerns, including the potential for greater operational risk, greater counterparty risk, potential growth in disruptive market practices or trading strategies, as well as the risk of more frequent sharp, short-term disruptions to the price discovery process.

The TMPG proposed a set of recommendations around automated trading based on the work done by its working group formed to explore the scope of algorithmic and high frequency trading in TMPG covered markets. These best practice recommendations were incorporated in the TMPG's consultative white paper on Automated Trading in Treasury Market that was published in April 2015. The feedback received during the consultation period was especially helpful in clarifying TMPG's guidance around managing sizable trading activity with care. Specifically, the updated TMPG recommendation is that market participants who employ trading strategies that involve high trading volume or quoting activity should be mindful of whether a sudden change in these strategies could adversely affect market liquidity and should seek to avoid changes likely to cause such disruption. These market participants should have plans in place that would allow them to change participation in a manner that incorporates the impact of the changes on market functioning. Further, market participants should not make sudden changes to trading strategies with the intention to disrupt market liquidity or functioning.

The TMPG has also released a final version of the white paper on *Automated Trading in Treasury Market* that describes the growth of automated trading in the secondary market for Treasury securities, and some of the benefits and risks associated with this evolution.

"The TMPG recognizes the importance of updating its best practice recommendations as market practices evolve over time. We believe that widespread adoption of the best practices related to automated trading by market participants will promote trading integrity and support an efficient marketplace," said Tom Wipf, Chair of the TMPG.

The TMPG recommends that market participants should implement the best practices as expeditiously as possible.

#

About the Treasury Market Practices Group (TMPG):
The Treasury Market Practices Group (TMPG) is a group of market professionals committed to supporting the integrity and efficiency of the Treasury, agency debt and agency mortgage-backed securities (MBS) markets. The TMPG is composed of senior business managers and legal and compliance professionals from a variety of institutions – including securities dealers, banks, buy-side firms, market utilities and others – and is sponsored by the Federal Reserve Bank of New York. More information is available at: www.newyorkfed.org/tmpg

Contact for Mr. Wipf (TMPG Chair):
Mr. Mark Lake
Morgan Stanley, Corporate Communications
(212) 761-8493 or mark.lake@morganstanley.com