



TMPG | Treasury Market Practices Group

Announcement

Treasury Market Practices Group Amends its Best Practices

February 19, 2008

NEW YORK — The Treasury Market Practices Group (TMPG) is committed to supporting the integrity and efficiency of the Treasury market. In light of the recent increased price volatility in the Treasury market and an accompanying increase in the incidence of settlement fails, the TMPG has added further clarification on the monitoring of settlement fails to its practice guidance.

The TMPG recommends that firms establish internal controls that measure and quickly alert management to significant settlement fails in a security. The significance of settlement fails in a CUSIP may be measured either in absolute size or relative to expected settlement activity in each CUSIP. The establishment of well-calibrated internal controls designed to provide timely notice of CUSIP-specific fails within individual firms can play an important role in enabling the market to resolve settlement fails before they become systemic.

The text below has been added as a seventh bullet point to Section IV (Promoting Efficient Market Clearing) of the Treasury Market Best Practices document.

- * **Firms engaged in settlement activity involving deliveries or receipts of Treasury securities should have controls in place that alert business and compliance managers to significant settlement fails in an individual issue or CUSIP.** For instance,

two approaches that such firms might use to monitor fails are:

- o identifying, for each specific issue, a maximum acceptable ratio of fails to aggregate receipts or deliveries during each settlement day, and
 - o establishing a separate absolute dollar threshold for settlement fails in a specific issue.
- * Firms with significant financing activity, in particular, should consider including both measures in their internal controls. Internal controls that immediately bring significant fails in an individual CUSIP to management's attention allow managers to respond before fails age or become systemic, thereby helping to improve overall market liquidity and functioning for all participants.

As always, feedback is welcomed. Comments can be directed to the TMPG at <mailto:tmpg@ny.frb.org>. "Treasury Market Best Practices" is available at <http://www.newyorkfed.org/tmpg/documents.html>.