

December 3, 2015

TMPG Seeks Comment on Proposed Best Practice Guidance for the Use of Financial Benchmarks

The Treasury Market Practices Group (TMPG) proposes for comment a set of updates to its best practice guidance for the Treasury, agency debt and agency mortgage-backed securities (MBS) markets to address the use of financial benchmarks. The proposed additions to the best practice recommendations are based on an examination of three case studies and informed by relevant policy initiatives such as IOSCO's *Principles for Financial Benchmarks* ("IOSCO Principles"). The TMPG welcomes feedback on its proposed best practice guidance, as well as a supporting document, [*Use of Financial Benchmarks in TMPG-Covered Markets: Three Sample Case Studies*](#).

Financial benchmarks are widely used to determine prices or interest rates on a wide variety of financial instruments and measure the relative performance of a financial instrument or portfolio. Collectively, the aggregate notional amount of transactions or contracts referencing financial benchmarks in the TMPG covered markets is in the trillions of dollars. Given their importance, the TMPG formed a working group in April 2014 to develop best practices related to the use of benchmarks in the TMPG covered markets.

The proposed best practice recommendations call for market participants to understand and manage the risks around the use of benchmarks, to choose financial benchmarks that are compliant or consistent with IOSCO Principles, and to develop plans over time to move to such benchmarks. The TMPG will continue to work with relevant industry groups to advance the use of benchmarks in TMPG covered markets that are compliant or consistent with the IOSCO Principles.

"The TMPG considers it essential that market participants use financial benchmarks that meet or are consistent with IOSCO standards to support the integrity and efficiency of the TMPG covered markets," said Tom Wipf, Chair of the TMPG.

Members of the public may submit comments by January 11, 2016 to tmpg@ny.frb.org. The TMPG expects to release the updated best practice recommendations after its evaluation of public comments.

TMPG proposed best practice guidance on the use of financial benchmarks:

- Market participants should have a thorough understanding of how any financial benchmark (as defined in the [IOSCO Principles for Financial Benchmarks](#), “IOSCO Principles”) they use is constructed and the vulnerabilities that may exist in its usage. Users of benchmarks should have robust contingency plans to deal with the potential interruption or discontinuation of a benchmark.
- When utilizing financial benchmarks market participants should use those that comply with or are consistent with IOSCO Principles. If market participants use indicators or rates that do not comply or are not consistent with the IOSCO Principles, they should develop plans over time to move to alternate benchmarks that comply or are consistent with IOSCO Principles. In the transition, market participants should manage the risks associated with the use of benchmarks that are not compliant or consistent with IOSCO Principles.
- Market participants should carefully evaluate whether the financial benchmarks they use are fit for the purpose for which they are being used. For instance, using collateralized overnight rates as a benchmark for uncollateralized overnight transactions may result in unexpected tracking errors; users should be mindful of such basis risk and manage it appropriately.
- Market participants managing against benchmarks or engaging in transactions that reference benchmarks, including transactions conducted at to-be-determined levels, should establish internal guidelines and procedures for executing and risk managing such transactions. Firms should understand the risks associated with managing against benchmarks and engaging in transactions that reference benchmarks, and seek to minimize incentives for inappropriate conduct. For example, transactions conducted at to-be-determined levels should be priced in a manner that is transparent and consistent with the risk borne in the transactions (e.g., via a clearly communicated and documented fee structure). For these purposes, transactions conducted at to-be-determined levels include those conducted at an index setting or where the rate or yield is to be agreed in the future.
- Market participants that contribute to the setting of benchmarks through the submission of information, orders and/or transactions should have clear policies and procedures in place for ensuring that information about such activity is not misused. Examples of such misuse would include coordination of activity or sharing of information, internally or externally, in order to influence the market price of a financial instrument or benchmark.

The logo features the text "TMPG | Treasury Market Practices Group" in white serif font against a dark blue background. The background image is a close-up of a calculator with numbers 23 and 30 visible.

TMPG | Treasury Market Practices Group

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

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