TMPG | Treasury Market Practices Group

Recommended Closing Time Practices for Delivering Fedwire-Eligible Securities: Frequently Asked Questions

The following is intended to address questions about the Treasury Market Practices Group's (TMPG) updated closing time practice recommendations for delivering Fedwire-eligible securities. Guidance related specifically to U.S. Treasury securities in the context of the TMPG fails charge practice recommendation is also provided. Please refer to the document titled *"Recommended Closing Time Practices for Delivering Fedwire-Eligible Securities"* for additional information.[1]

Revised May 28, 2009

General

Why is the TMPG recommending updated closing time practices for delivering Fedwire-eligible securities?

Discussions among TMPG members and other market participants revealed dissatisfaction among some market participants with the existing market convention under which dealers can deliver securities to customers until 3:15 p.m., but customers can usually only deliver securities to dealers until 3:00 p.m.[2] This convention can sometimes leave a customer who had, at 3:00 p.m., an uncompleted obligation to receive securities and a matching uncompleted obligation to deliver the same securities in the position of taking in the securities after 3:00 p.m. without being able to turn the securities around and redeliver them on the same day. Instead of a pair of matched fails, the customer is left with an unmatched fail to deliver, resulting in higher interest expenses and/or an overdraft charge. This practice is intended to address this asymmetry by treating participants uniformly.

When does the TMPG recommend that the updated closing time practice go into effect?

The TMPG recommends that, in general, market participants observe 3:00 p.m. EST as the deadline for origination of deliveries of Fedwire-eligible securities, effective July 1, 2009.

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[1] The document titled *"Recommended Closing Time Practices for Delivering Fedwire-Eligible Securities"* is available on the TMPG's website: www.newyorkfed.org/tmpg

[2] Some dealers make exceptions in some cases and allow some customers on some occasions to deliver securities between 3:00 and 3:15 p.m.

Why did the TMPG modify its prior proposed recommendation on closing time practices published on April 28, 2009?
The TMPG modified its prior proposed recommendation on closing time practices following feedback from a variety of market participants. Some participants, particularly custodians, felt that implementation of the prior proposed recommendation would be operationally complex and thus would not be achievable within the recommended time frame. As a result of this feedback, the TMPG recommends that, in general, market participants observe a 3:00 p.m. deadline for origination of deliveries of Fedwire-eligible securities.

Does this practice recommendation only apply to U.S. Treasury securities?
No, this practice recommendation applies to all Fedwire-eligible securities, because restricting it to Treasury securities only would be operationally burdensome.

Can a market participant negotiate an alternative closing time arrangement, and if so, how?
The TMPG recognizes that some market participants may find it beneficial to negotiate, bilaterally with some of their counterparties, alternative closing time arrangements to cover settlements between themselves and those counterparties. For example, market participants with sophisticated inventory control systems may prefer to originate and receive deliveries *with each other* up until the 3:15 p.m. cutoff time for originating deliveries of Fedwire-eligible securities prescribed by the Federal Reserve System. Such mutually-agreed arrangements would not violate the general closing time recommendation of the TMPG and the Securities Industry and Financial Markets Association (SIFMA). Any alternative closing time arrangements must be negotiated bilaterally between counterparties.

Do market participants that wish to negotiate alternative closing time arrangements with other counterparties need to do so by July 1, 2009?
No, market participants that wish to negotiate, bilaterally with some of their counterparties, alternative closing time arrangements may do so at any time. Since the negotiation of alternative closing time arrangements may entail significant additional costs and operational burdens, the TMPG suggests that market participants consider carefully the relative costs and benefits with respect to their individual businesses of entering into such arrangements. In particular, each market participant should consult with its custodian or custodians about the cost and complexity of entering into an alternative closing time arrangement.

Is there any adjustment to reference times in this practice guidance on days when the Fedwire Securities Service wire close is extended past 3:30 p.m.?
Yes, all times referred to in the TMPG's closing time practice recommendation are ultimately determined by the actual time the wire closes on a given day. For instance, if the securities wire is extended to a 4:30 p.m. close on a given day, then the general recommended deadline for origination of deliveries of Fedwire-eligible securities would be 4 p.m. that day. Similarly the reversal period would move to 4:15 p.m. to 4:30 p.m. on a day when the wire is extended to 4:30 p.m.

Incorporation of the Fails Charge

Why wasn't the new closing time practice guidance linked to the fails charge practice recommendation and implemented at the same time?
The delivery time guidance grew out of due diligence processes associated with work related to the implementation of the fails charge. Although the delivery time recommendation was not developed in time to be implemented alongside the fails charge, the gap between the implementation of these two new market practices is brief. Moreover, it is important to recognize that the delivery time practice guidance is broader than the fails charge, and that it will remain relevant in all interest rate environments, not just abnormally low interest rate environments in which the fails charge practice recommendation applies. In addition, it is important to recall that the fails charge recommendation applies only to delivery fails with respect to transactions in U.S. Treasury securities, whereas the revised closing time recommendation applies to all Fedwire-eligible securities.

How does the TMPG recommend that the fails charge be incorporated into the new closing time practices?
The TMPG recommends that a buyer charge a seller for a settlement fail pursuant to the TMPG practice recommendation published on March 31, 2009,[3] regardless of whether the parties are observing the general 3:00 p.m. closing time or have agreed to some alternative closing time arrangement.

Until this updated closing time practice recommendation is implemented, how should participants apply the fails charge to settlement fails that result from existing delivery market practice conventions?
The TMPG recognizes that in the interim period before new delivery time practices are implemented there may be some instances in which a customer receives securities from a dealer between 3:00 p.m. and 3:15 p.m. that it can not then turn around and redeliver. This would leave the customer with an unmatched fail to deliver that cannot be offset against a fail to receive. Based on the TMPG's recommendation, this type of fail to deliver would not be exempt from the fails charge. Although this outcome is not ideal, the interim period before new delivery time practices are implemented will be brief, and the number of trades typically settling after 3 pm is small in aggregate. Finally, any different treatment of the fails charge during the interim period might lead to unneeded confusion in the new practice regime.

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[3] The "U.S. Treasury Securities Fails Charge Trading Practice", published by the TMPG and SIFMA, is available at http://www.sifma.org/capital_markets/docs/fails-charge-trading-practice.pdf.