TMPG Meeting Minutes
June 28, 2012

TMPG attendees

Art Certosimo (BNY Mellon)	Beth Hammack (Goldman Sachs)	Mark Tsesarsky (Citigroup)
Daniel Dufresne (Citadel)	James Hraska (Barclays Capital)	Stu Wexler (ICAP)
Brian Egnatz (HSBC)	Gerald Pucci (BlackRock)	Tom Wipf (Morgan Stanley)
Michael Garrett (Wellington)	Joerg Stephan (Deutsche Bundesbank)	Matt Zames (J.P. Morgan)

FRBNY attendees

David Finkelstein	Sean Savage	Nate Wuerffel
Frank Keane	Janine Tramontana	
Lorie Logan	Josh Wright	

- The meeting began with a discussion of the outlook for domestic financial markets and developments in Europe.

- The Group then turned to discuss 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 no material issues with the fails charge collection process have been observed. The Group agreed to continue monitoring settlement fails activity and to periodically evaluate the effectiveness of the fails charges practices. A few members expressed interest in holding future discussions on whether the current two-day length of the resolution period should be shortened.

- The Group's focus then shifted to a discussion of potential practices to support trading, settlement, and operational processes in the event of a delayed payment on Treasury debt. Recognizing that a security ceases to be operationally transferable over the Fedwire Securities system once its maturity date is reached, the potential practices are intended to help preserve the transferability of securities for which payment is not made in a timely way.
- The discussion emphasized that the potential practices, if implemented, would only mitigate, not eliminate, the operational difficulties posed by a delayed payment on Treasury debt. It was also noted that the Treasury Department would ultimately determine whether the potential practices that involve Fedwire would be implemented, and that the market cannot be assured that such a course would be chosen in all circumstances.
- The Group reviewed each of the previously discussed[1] potential practices, and agreed they would be useful to support trading, settlement, and operational processes in the event of a delayed payment. The potential practices discussed are as follows:
    - Prior to the close of Fedwire on the day before a principal payment is due, the maturity date field would be rolled forward by one day. This process would be repeated until the delay is resolved. Participants noted that Fedwire could likely accommodate this, but only if notice is given before the prior day's close, and recognized that rolling the maturity date field would not change the legal maturity date of security.
    - The eventual principal payments for securities with delayed maturities would be made to the final holder of the security.
    - The eventual interest payments for securities with delayed maturities would be made to the holder of the security as of the originally scheduled payment date, allowing most systems to track and monitor interest payments without substantial manual intervention.

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

  - Quoting conventions would remain unchanged, with bills quoted on a discount rate basis and notes and bonds quoted on a clean price basis.
  - If there was a decision to compensate investors for lost interest, any compensation that may be authorized would ultimately be owed to the same parties that receive the delayed principal and interest payments, as specified above.
- In light of these potential practices, members also discussed a range of useful operational questions that could be considered by Treasury market participants:
  - What systems issues arise and what manual procedures would need to be invoked if the potential practices were implemented? Are there opportunities to adapt systems and processes to support the potential practices as a part of routine planning or maintenance?
  - Are there any operational modifications that can shorten the time needed to roll forward the maturity date field in key systems?
  - If the maturity date field was not rolled forward on Fedwire in a timely manner, what system changes would be necessary to support continued trading and transfer of Treasuries bilaterally or within a clearing bank (i.e., not over Fedwire)? Would other sources of funding be available?
  - Would settlement and custodial systems process maturities on an automated basis on the night before maturity for the next day's settlement? As such, would positions in the maturing securities automatically be reduced to zero in anticipation of the receipt of cash, posing a problem if the cash is not received as scheduled?
  - Would changing the maturity of the instrument lead systems to cancel and re-book entries? Would systems continue to accrue interest for a security that has its maturity date field rolled? Would there be a need to manually intervene to zero out the coupon during the delay period?
  - Are there other operational considerations that should be considered, such as updates to legal agreements, pricing services, or other issues?

- The Group then turned to discuss the operational, legal, and financial implications of margining forward-settling agency MBS transactions:
  - The Group discussed a possible best practice for margining of forward-settling agency MBS transactions. The Group also discussed the potential scope of the possible best practice recommendation, including whether to include certain types of agency MBS and Treasury forward transactions, such as specified pool, CMO, and when-issued transactions. In general, the Group agreed that a risk-based approach to margining would focus first on the margining of agency MBS forward transactions. The Group agreed to revisit potential margining practices for other security forward transactions, including when-issued Treasury transactions, at a future meeting.
  - Members agreed to continue to engage SIFMA in a review of the current form of *Master Securities Forward Transaction Agreement*.
  - The Group also agreed to continue work on a white paper elaborating the risks posed by unmargined agency MBS trading and how margining could help mitigate such exposures. The Group expects to finalize the white paper and proposed practice recommendation for the September meeting.

- The next TMPG meeting will take place on **Thursday, September 20, 2012, 4:00–6:00 PM**.