

TMPG Meeting Minutes

September 20, 2012

TMPG attendees

Art Certosimo (BNY Mellon)*	Beth Hammack (Goldman Sachs)	Nancy Sullivan (BNY Mellon)
Daniel Dufresne (Citadel)*	Curt Hollingsworth (Fidelity)	Mark Tsesarsky (Citigroup)*
Brian Egnatz (HSBC)*	James Hraska (Barclays Capital)*	Stu Wexler (ICAP)
John Fath (BTG Pactual)	Murray Pozmanter (DTCC)*	Tom Wipf (Morgan Stanley)*
Michael Garrett (Wellington)	Gerald Pucci (BlackRock)	Matt Zames (J.P. Morgan)*

FRBNY attendees

David Finkelstein	Frank Keane*	Simon Potter
Josh Frost	Lorie Logan	Janine Tramontana
Peggy Kauh	Susan McLaughlin	Josh Wright

**Participated in the meeting by phone.*

- The meeting commenced with a welcome to Simon Potter, the new head of the FRBNY's Markets Group and Manager of the Federal Reserve's System Open Market Account.
- The Group then discussed recent market developments, including the reaction of financial markets to the policy statement released following the September 12-13 FOMC meeting, as well as ongoing developments in European markets.
- The Group turned to discuss the level of agency MBS settlement fails over the past few months:
 - Members remarked that they had observed a moderate uptick in agency MBS settlement fails over the summer months, although the overall level remains low.
 - Members noted several possible drivers for the modest rise in agency MBS settlement fails, most notably shifts in trading and settlement activity by some market participants and the scarcity of certain To-Be-Announced contracts.
 - The Group discussed the impact that either an increase in the recommended fails charge rate or a shortening of the recommended two-day resolution period might have on trading behavior and back-office operations. There was agreement that any potential future adjustments to the recommended fails charge trading practice should be weighed carefully against the Group's objectives, and that future adjustments should occur infrequently to avoid unnecessary market disruption.
 - Members agreed to continue closely monitoring agency MBS settlement fails activity and discussing the effectiveness of the agency MBS fails charge trading practice.
- The working group formed to study the operational, legal, and financial implications of margining forward-settling agency MBS transactions then reviewed the effort to develop an updated best practice for margining in agency MBS trading:
 - Drafts of the proposed best practice recommendation and a white paper describing how margining could help mitigate risks posed by unmargined agency MBS trading were presented to the Group for review.
 - Additionally, an update was provided on SIFMA's progress towards revising the current form of SIFMA's *Master Securities Forward Transaction Agreement*. The Group agreed to continue working closely with SIFMA to produce a balanced master

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- agreement in a timely manner to facilitate the market's adoption of a best practice for margining forward-settling agency MBS transactions.
- The Group expressed interest in finalizing details of the recommended margining best practice at an upcoming meeting.
- The Group then turned to discuss the timeliness of the tri-party repo three-way trade confirmation process:
 - Members reviewed current efforts to promote three-way, real-time trade confirmation in the tri-party repo market, which is a practice recommended by the Tri-Party Repo Infrastructure Task Force late last year to facilitate the exchange of all trade details between cash investors, dealers, and clearing banks in advance of trade settlement. It was noted that while the clearing banks implemented three-way trade confirmation in 2011 and all tri-party repo market participants signed the necessary legal agreements by early 2012, recent analysis provided by the clearing banks and anecdotal reports indicate that only about three-quarters of tri-party repo daily trading volume is matched by 3:00 PM, with all trades not matched until 6:00 PM or later.
 - The Group discussed the possibility of promoting a best practice recommending timeliness of the three-way trade confirmation process, given the criticality of confirming as much tri-party repo trade activity as possible in advance of the kick-off of trade settlement. Such a practice would support process changes implemented by the clearing banks to reduce intraday credit usage in the tri-party repo market.
 - The Group agreed to begin by examining the factors impeding broader timely matching of trades and practical solutions that could be promoted for addressing these issues.
- Given time constraints, the Group agreed to postpone discussing proposed revisions to reports collected by the Federal Reserve on primary dealer trading activity to a later time.
- The next TMPG meeting will take place on **Thursday, November 1, 4:00–6:00 PM.**