

## TMPG Meeting Minutes

April 7, 2014

### TMPG attendees

Art Certosimo (BNY Mellon)

Dan Dufresne (Citadel)

Brian Egnatz (HSBC)

Michael Garrett (Wellington)

Beth Hammack (Goldman Sachs)

Jim Hraska (Barclays)

Murray Pozmanter (DTCC)

Gerald Pucci (Blackrock)

Mark Tsesarsky (Citigroup)

Stu Wexler (ICAP)

Tom Wipf (Morgan Stanley)

### FINRA attendees

Alie Diagne

Kris Dailey

Steve Joachim

Ola Persson

Jonathan Sokobin

Peter Tennyson

Bill Wollman

### FRBNY attendees

Joshua Frost

Frank Keane

Simon Potter

Susmitha Thomas

Janine Tramontana

### U.S. Treasury Department attendee

James Clark

- The meeting commenced with a presentation by representatives from the Financial Industry Regulatory Authority (FINRA) regarding the impact on mortgage market liquidity, if any, of the publication of agency MBS transactions on TRACE, followed by a discussion between TMPG members and FINRA representatives on the connection between the TMPG's practice [recommendation to margin agency MBS trades](#) and FINRA's [Regulatory Notice 14-02](#).
  - FINRA representatives noted that they analyzed agency MBS transactional data following a discussion with the TMPG at its [October 2013 meeting](#). FINRA representatives shared their preliminary staff-level view that TRACE reporting of agency MBS transactions has not negatively affected liquidity and that they have not observed adverse or unexpected impacts on behavior or TBA market functioning. A discussion about FINRA's methodologies and conclusions then ensued. FINRA representatives noted that many market participants have reported to FINRA that the increased level of transparency has been broadly beneficial. FINRA representatives indicated that they would continue a dialogue with the TMPG around this analysis in coming months and that they would welcome any specific suggestions for further analysis. The Group noted that transparency was also an ongoing priority for the TMPG.
  - TMPG members then clarified with FINRA representatives certain TMPG views and decisions that had been referenced in comment letters FINRA received related to

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regulatory Notice 14-02. In particular, TMPG members noted that they recommended margin for trades that settle beyond T+1, instead of T+3, for TBAs and specified pool transactions for the following reasons:

- To avoid providing incentives to increase trading volumes in TBA and specified pool transactions, including a high volume of dollar roll transactions, on 48- and 72-hour days. Members opined that the ability to conduct trades on a forward basis in the TBA market, or to finance these positions through dollar roll transactions throughout the month, are important aspects of the liquidity of the TBA market, which lowers borrowing costs. Changes to margining practices that would result in a higher concentration of trading volume in the narrow window of T+3 or less could hamper the liquidity and functioning of the TBA market.
- To avoid shifting trading activity from TBA trades to specified pool transactions, a relatively close substitute. Since collateralized mortgage obligation (CMO) transactions are less ready substitutes for TBA trades the Group viewed the standard settlement cycle of T+3 for secondary trading in the spot CMO market as the appropriate delineation for determining forward settlement.
- To avoid leaving a material amount of un-margined counterparty credit exposure in the market, since a sizable volume of TBA and specified pool transactions occur within three days from settlement.

TMPG members noted that, wherever possible, harmonizing the scope and applicability of the TMPG recommendations and FINRA's rules would be most efficient for market participants. The TMPG agreed to continue to offer cooperation and consultation with FINRA as it moves forward with its rule making process. Following this discussion, FINRA representatives left the meeting.

- TMPG members then reviewed summary statistics related to its agency MBS margining recommendation, which indicated that at the end of March 2014, TMPG member firms had, on average, executed margining agreements with roughly 60 percent of their counterparties (a five percent increase from the prior meeting). The executed agreements covered roughly 85 percent of TMPG member firms' notional trading volume (excluding centrally cleared trades), and margin exchange had been operationalized for roughly 70 percent of the executed agreements. The TMPG also reviewed summary statistics relating to the average distribution of threshold levels agreed to by TMPG member firms and their counterparties, as of March 28:
  - \$0 to \$100,000 – 70%
  - \$100,001 to \$250,000 – 20%
  - \$250,001 to \$500,000 – 5%
  - \$500,000 or higher – 5%
- Members then discussed recent inquiries regarding the applicability of the agency MBS margining recommendation and the [fails charge practice recommendation](#) to agency-issued

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multifamily securities. Members agreed to further discuss this issue at the next TMPG meeting.

- Members very briefly discussed the group’s desire to take stock of benchmark indices used by market participants in TMPG covered markets and agreed to form a working group to begin this effort.
- The Group then received an update from a working group formed to conduct a high-level review of high-speed electronic trading in TMPG covered markets, which seems largely limited to on-the-run Treasury securities and Treasury futures. The working group discussed adverse market events that may result from improper risk controls. Members agreed that the likelihood of such risk events occurring and the severity of the consequences would likely be mitigated by robust policies and procedures for high-speed trading at a clearing firm, client, and electronic trading platform level. Members agreed to continue the discussion of whether specific best practices should be developed for high-speed electronic trading activity in the Treasury market at subsequent meetings.
- The meeting concluded with a brief discussion of recent market developments, including the Federal Reserve’s [Overnight Fixed-Rate, Reverse Repurchase Agreement Operational Exercise](#) and the New York Fed’s [announcement](#) that its Open Market Desk would begin to conduct agency MBS purchases over its proprietary trading platform.
- The next TMPG meeting will take place on Wednesday, May 14, from 4:00-6:00 PM.