

## TMPG Meeting Minutes

February 11, 2014

### TMPG attendees

Art Certosimo (BNY Mellon)

Jim Hraska (Barclays)

Mark Tsesarsky (Citigroup)

Julia Coronado (BNP Paribas)

Murray Pozmanter (DTCC)

Stu Wexler (ICAP)

Brian Egnatz (HSBC)

Gerald Pucci (Blackrock)

Tom Wipf (Morgan Stanley)

Beth Hammack (Goldman Sachs)

Nancy Sullivan (BNY Mellon)

### FRBNY attendees

Joshua Frost

Simon Potter

Nate Wuerffel

Frank Keane

Susmitha Thomas

Lorie Logan

Janine Tramontana

### Federal Reserve Board attendee

Matthew Eichner

### U.S. Treasury Department attendee

James Clark

- The meeting commenced with a discussion of recent market developments including financial market reactions to the January FOMC meeting, and related communications, and the Federal Reserve's [Overnight Fixed-Rate, Reverse Repurchase Agreement Operational Exercise](#).
- Members then turned to a discussion of the TMPG's best practice [recommendation](#) to margin forward-settling agency MBS transactions.
  - Members reviewed summary statistics that indicated widespread adoption of the best practice recommendation. At the end of January 2014, TMPG member firms had, on average, executed margining agreements with roughly 55 percent of their counterparties, which covered roughly 75 percent of their notional trading volume (excluding centrally cleared trades). Members were encouraged by the continued progress towards full implementation of this recommendation and continued to emphasize the importance of two-way margin exchange as a mechanism to substantially reduce counterparty and systemic risk on forward-settling agency MBS trading.
  - TMPG members then discussed FINRA's [Regulatory Notice 14-02](#), which requests comment on [Proposed Amendments to FINRA Rule 4210 for Transactions in the TBA Market](#). Members were supportive of FINRA's efforts, which were informed by the TMPG's best practice margining recommendation and which cover the same products. Members noted that FINRA's proposed rule amendments would be binding across FINRA's membership, which would further the objectives of the TMPG's agency MBS margining recommendation and encourage wider adoption of margining practices over time. While recognizing that the TMPG's margining best

## TMPG Meeting Minutes

February 11, 2014

- practices go beyond the scope of FINRA's proposed rule amendments, as the TMPG recommends two-way margin exchange for all market participants, members viewed the two initiatives as complementary. Members agreed to offer continued cooperation and consultation with FINRA as it moves through its process. Members also noted that the progress in implementing the TMPG best practices should reduce the costs that would otherwise be incurred to implement the proposed FINRA rule amendments.
- Members then discussed and agreed to update the [frequently asked questions \(FAQs\)](#) related to the applicability of the TMPG's fails charge trading practice [recommendation](#) to free deliveries, round robins and pair offs.
    - Members agreed that fails on [free deliveries](#) should remain outside the scope of the TMPG practice recommendation. TMPG members agreed, however, to clarify that the fails charge trading practice is not intended to preclude counterparties in a free delivery fail scenario to separately agree to compensate the failed-to party if they determine that to be a desired element of their trading relationship.
    - Members also agreed that that regardless of whether settlement is ultimately achieved through a [pair-off, a round robin](#), or any other means, a fails claim should apply to all delivery-versus-payment transactions that are not settled on the contractual settlement date. Members noted that this clarification should reduce the risk that some participants might delay settlement in the hope of ultimately pairing off or settling through a round robin, thus avoiding the application of the fails charge. The TMPG is not recommending that market participants revisit or revise such scenarios where the fails chart has been applied in a different manner in the past.
  - The Group then received a brief update from a working group formed to conduct a preliminary high-level review of high-frequency trading (HFT) in TMPG-covered markets. The working group members relayed that they intended to begin by discussing the extent of HFT taking place in TMPG covered markets. Members agreed to continue discussion of this topic at future meetings.
  - The TMPG then discussed potential administrative modifications and updates to the existing recommended [Best Practices for Treasury, Agency Debt, and Agency Mortgage -Backed Securities Markets](#). Members agreed that it would be prudent to incorporate the TMPG's specific [subject-matter recommendations](#) (for example, the fails charge trading practice) within this principles-based best practices document, and to strengthen the language within the document to more clearly underscore that TMPG practice recommendations are intended to apply to all market participants.
  - The next TMPG meeting will take place on Monday, March 10, from 4:00-6:00 PM.