

TMPG Meeting Minutes

March 22, 2012

TMPG attendees

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|------------------------------|-------------------------------------|-----------------------------|
| Art Certosimo (BNY Mellon) | Beth Hammack (Goldman Sachs) | Nancy Sullivan (BNY Mellon) |
| Daniel Dufresne (Citadel) | James Hraska (Barclays Capital) | Mark Tsesarsky (Citigroup) |
| Brian Egnatz (HSBC) | Murray Pozmanter (DTCC) | Stu Wexler (ICAP) |
| John Fath (BTG Pactual) | Jerry Pucci (BlackRock) | Tom Wipf (Morgan Stanley) |
| Michael Garrett (Wellington) | Joerg Stephan (Deutsche Bundesbank) | |

FRBNY attendees

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|-------------------|-------------|-------------------|
| David Finkelstein | Frank Keane | Janine Tramontana |
| Josh Frost | Lorie Logan | Josh Wright |
| Peggy Kauh | Brian Sack | Nate Wuerffel |

Treasury Department attendee

Colin Kim

- The meeting commenced with a discussion of market conditions, including recent developments in money markets.
- The Group then discussed the recently implemented agency debt and agency MBS fails charges:
 - o Members remarked that they observed continued improvement in the level of fails from mid-February to mid-March. Several members observed that a high percentage of their agency MBS fails have been resolved within the two-day resolution period following a settlement fail.
 - o The Group reviewed minor suggested updates to the fails charge FAQ document on the TMPG's website and agreed to update the FAQs to respond to questions received regarding the netting of fails charges between counterparties.
 - o Discussion turned to the SEC's recent approval of the DTCC's Mortgage-Backed Securities Division's (MBSD) application to operate as a central counterparty (CCP) in the agency MBS market. Members commented that the CCP will significantly reduce the operational work associated with processing interdealer agency MBS fails charges when its operations are launched on April 2.
 - o Finally, it was agreed that the Group will continue to closely monitor settlement fails activity and periodically evaluate the effectiveness of the fails charges.
- Members then discussed questions received regarding the potential expansion of the Group's recommended fails charge trading practice to cover free delivery transactions:
 - o The Group discussed the frequency of settlement fails in free delivery transactions and the impact that a fails charge would have on free delivery trades, concluding that the aggregated incidence of settlement fails arising from free deliveries was

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- minimal. Moreover, unlike delivery versus payment fails, the incentives surrounding free delivery fails are similar in low- and high-rate environments. As such, members noted that the fails charge, which is only applicable in low-rate environments, is unlikely to address the root causes of free delivery fails in all rate environments.
- The Group agreed to reach out to other industry organizations to share its views and further discuss this topic.
- Attention then shifted to a discussion of the debt ceiling events that took place during the summer of 2011:
- There was general consensus that a delayed payment on Treasury debt could arise from circumstances other than those observed last summer, including system failures, terrorist attacks, or natural disasters. In light of the risk, members agreed it would be prudent to explore potential trading, settlement or infrastructure recommendations in the event of a delayed payment situation. The Group confirmed that the focus of any exploration should be technical in nature and targeted at trading and settlement practices and conventions to address some of the operational challenges which could arise during such an event. Members agreed that any recommendations could help to reduce, but could not eliminate many of the adverse operational consequences of a delayed Treasury payment.
 - Members noted that while the consequences of a delayed Treasury payment on financial markets could be widespread and severe, depending on the circumstances that prompted the delay and the inference that investors drew about the risk characteristics of Treasury securities, the Group does not plan to make any judgments about those broader effects.
 - The members agreed to explore this topic in greater detail at future meetings.
- The meeting closed with an update from the working group formed to study margining practices for to-be-announced (TBA) agency MBS transactions:
- The working group members relayed that they continue to focus on developing a summary of some of the legal and operational issues associated with TBA margining.
 - The working group members also reported that they continue to discuss with SIFMA their interest in exploring an update to the current standard form of master securities forward transaction agreement (MSFTA).
- The next TMPG meeting will take place on **Wednesday, May 2, 4:00 – 6:00 PM.**