TMPG Meeting Minutes
November 28, 2012

TMPG attendees

Art Certosimo (BNY Mellon)	Beth Hammack (Goldman Sachs)	Stu Wexler (ICAP)
Daniel Dufresne (Citadel)	Murray Pozmanter (DTCC)	Tom Wipf (Morgan Stanley)
Brian Egnatz (HSBC)	Gerald Pucci (BlackRock)	Matt Zames (J.P. Morgan)
John Fath (BTG Pactual)	Joerg Stephan (Deutsche Bundesbank)	
Michael Garrett (Wellington)	Mark Tsesarsky (Citigroup)	

FRBNY attendees

Vic Chakrian	Frank Keane	Janine Tramontana
David Finkelstein	Lorie Logan	Josh Wright
Josh Frost	Susan McLaughlin	Nate Wuerffel
Peggy Kauh	Simon Potter	

U.S. Treasury Department attendee
James Clark

- The meeting commenced with a welcome to James Clark, Deputy Assistant Secretary for Federal Finance at the U.S. Treasury Department.

- The discussion turned to recent market developments, including the outlook for "fiscal cliff" negotiations, mortgage market activity, and expectations for year-end market conditions.

- The Group then discussed some "lessons learned" in the aftermath of Hurricane Sandy:
  - Members commented that the Treasury, agency debt, and agency MBS markets were generally quite resilient, despite the disruptions caused by Hurricane Sandy.
  - While the Group supported the decision to close the bond market, members highlighted the uncertainty caused by the timing of communications on the closing of certain markets and associated trading and settlement practices. Members noted that they would be broadly supportive of improved coordination between various stakeholders, as well as more timely and transparent communications of market openings, closings, and related trading conventions in future contingency events.
  - Members also highlighted recent discussions at their firms regarding areas where contingency planning could be enhanced. Some members commented that having back-up sites with greater geographic dispersion from primary sites would be more robust, and that the provision of certain trading support services by a small number of providers poses a high risk. Members also recognized a need to have readily accessible back-up contact information for trading counterparties, should direct telephone circuits become unavailable.
  - Members also discussed how the lack of electricity, fuel, and telecommunication coverage greatly limited remote capabilities.
  - The Group agreed to pursue these issues within their firms and to reach out to other financial industry organizations to share their views. Members also agreed to consider at future meetings whether there were opportunities where the TMPG could help promote more robust business resiliency practices for the industry.

- The Group turned to continue its discussion of the moderate increase observed in the level of agency MBS settlement fails since the summer:
    - Members noted that the level of settlement fails remains modestly higher than levels observed following the implementation of the fails, although the level continues to be well below the peaks of recent years.
    - Members also discussed the potential impact from reducing the recommended two-business day resolution period. Members recalled that the resolution period was intended to mitigate the risk that fails charge claims could prove overly burdensome to process, particularly during the initial months following the fails charge's implementation. Some members questioned if the resolution period was still necessary, given that the outstanding level of settlement fails is now significantly lower, many firms have implemented automated fails charge claim processes, and the operational burden has proven to be manageable. A few members also noted that in practice, some participants may be using the resolution period as an opportunity to "sort the box," a practice in conflict with TMPG practice guidance.[1]
    - The Group agreed to continue to closely monitor agency MBS settlement fails activity and to continue to evaluate the key elements of the agency MBS fails charge trading practice, including whether or not a resolution period remains necessary, at future meetings.

- The discussion then shifted to the Group's best practice recommendation to margin forward-settling agency MBS transactions, which was announced on November 14:

    - Attention focused on several issues raised during recent Securities Industry and Financial Markets Association (SIFMA) working group conference calls on the recommendation, including a request for clarification on the best practice's scope and concerns surrounding the proposed implementation date of early June 2013.
    - Members expressed interest in reaching out to SIFMA to further discuss these concerns.

- The Group then discussed factors inhibiting more timely three-way trade confirmation for tri-party repo:
    - Members highlighted that two principal factors appear to most impede broader timely matching of tri-party repo trades: late-day trading activity and late-day submissions of block trade allocations.
    - The Group also discussed a proposal that was being considered by SIFMA to describe best practice recommendations for the tri-party repo market, aimed at assisting

[1] "Practices that cause settlement fails should warrant high scrutiny from trading management, settlement staff, and compliance staff. Intentionally failing to deliver on settlement date in order to "hold the box," "sort the box," or substitute TBA pools should be avoided. Repeated or systematic practices that cause settlement fails should not be permissible under a market participant's operating procedures," *Best Practices for Treasury, Agency Debt, and Agency Mortgage-Backed Securities Markets*, revised November 2012: 5.

market participants with successfully confirming 90 percent of trades by 3:00 p.m. to ensure an orderly start to tri-party settlement processing at 3:30 p.m.
  - The Group agreed to reach out to SIFMA to further discuss frictions impeding earlier trade matching in tri-party repo and to consider whether there are any additional best practices that could be promoted to address these issues.

- The next TMPG meeting will take place in January 2013.

TMPG Teleconference Meeting Minutes – *November 14, 2012*

TMPG attendees

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

FRBNY attendees

David Finkelstein	Peggy Kauh	Josh Wright
Josh Frost	Janine Tramontana	Nate Wuerffel

- On November 14, 2012, the TMPG met briefly by teleconference to consider the recommended best practice to margin forward-settling agency MBS transactions:
  - The TMPG reviewed final versions of the *Best Practices for Treasury, Agency Debt and Agency MBS Markets*, the TMPG white paper entitled "Margining in Agency MBS Trading," the TMPG's announcement recommending that forward-settling agency MBS transactions be margined, and the Securities Industry and Financial Markets Association's (SIFMA) revised Master Securities Forward Transaction Agreement, which was published on the prior day.
  - The members commended SIFMA for supporting the TMPG's effort with the development of an updated master agreement, which provides a more balanced framework for documenting and margining forward agency MBS trading.

- Members also discussed several proposals for the recommended effective date for the practice and implementation time frame:
  - The Group agreed that it would recommend that market participants implement the margining practice on a rolling basis beginning on the announcement date and complete the process by early June 2013, in order to allow adequate time to execute the necessary legal agreements and develop the required operational infrastructure.

- The members unanimously supported strengthening the existing Best Practices to include a recommendation that forward-settling agency MBS transactions be margined. The Group agreed that the announcement and related documents would be published on the TMPG's website following the meeting.