

TMPG Meeting Minutes

September 23, 2014

TMPG attendees

Julia Coronado (Graham Capital)	Beth Hammack (Goldman Sachs)	Murray Pozmanter (DTCC)
Jim DeMare (BAML)	Jim Hraska (Barclays)	Gerald Pucci (Blackrock)
Dan Dufresne (Citadel)	Gary Kain (American Capital Agency)	Mark Tsesarsky (Citigroup)
Brian Egnatz (HSBC)	Vincent Legroux (Banque de France)	Stu Wexler (ICAP)
John Fath (BTG Pactual)	Steve Meier (State Street)	Tom Wipf (Morgan Stanley)
Michael Garrett (Wellington)	Sandra O'Connor (J.P. Morgan Chase)	

FRBNY attendees

Michelle Ezer	Glenn Haberbush	Susmitha Thomas
Joshua Frost	Lorie Logan	Janine Tramontana
Frank Keane	Ernst Schaumburg	Nate Wuerffel

SIFMA attendees

Rob Toomey	Karl Schimmeck
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U.S. Treasury Department attendees

Matthew Rutherford	Jonah Crane
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- The meeting commenced with a welcome to new members, Gary Kain from American Capital Agency, Steve Meier from State Street Global Advisors, and ex-officio member Michelle Ezer from the New York Fed. Members then reviewed potential 2015 TMPG meeting dates and agreed to finalize the 2015 schedule at a future meeting.
- The Group then received a briefing from SIFMA staff (see appendix) on its newly formed market response committees for fixed income and equities, formed to help improve crisis response coordination and communication, and triggered in part by discussions between TMPG and SIFMA in the wake of Superstorm Sandy. Specifically, these committees would determine whether a market disruption would warrant special trading or settlement recommendations, including closure if necessary. Looking back to the [lessons learned from Superstorm Sandy](#), TMPG members noted that the existence of standing SIFMA committees with established communication and decision making protocols would help facilitate coordination between various stakeholders and enable more timely distribution of decision-making in a crisis. Members emphasized the need to consider the interconnectedness of funding and settlement processes for all covered markets, and manage communications in a way that best supports overall market function. Members also suggested that it would be beneficial to more clearly think through various crisis scenarios, and potential responses, in advance in order to streamline decision making in the event of a crisis. Members also observed that the size of the committees was large, which might make decision-making difficult, and suggested that SIFMA consider processes or subgroups that might facilitate

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more efficient and effective decision-making. SIFMA staff thanked TMPG members for the feedback and agreed to consider the guidance provided. Following this discussion, SIFMA staff left the meeting.

- The TMPG then discussed recent market developments, including financial market reactions to the [September FOMC meeting and communications](#), the FOMC's [Policy Normalization Principles and Plans](#), and the changes announced to the terms of the Federal Reserve's [Overnight Reverse Repurchase Agreement Operational Exercise](#).

Members also discussed the increase in Treasury settlement fails and two blog posts written by the New York Fed that provide an [overview of settlement fails](#) and assess the [June spike in Treasury settlement fails](#) and a longer term rise in fails of seasoned Treasury securities. Members noted that the increase in fails over the June quarter-end coincided with broader scarcity of high quality collateral and reduced availability of dealer balance sheets for financing transactions. Members agreed that continued attention to fails is prudent, and while the June spike was brief and did not a cause for concern, if the level of fails grew or became persistent, it would require greater attention.

TMPG members also made note of the Federal Housing Finance Agency's [white paper](#) that outlines the proposed structure of a single security to be issued and guaranteed by Fannie Mae or Freddie Mac, and expressed an interest to discuss this proposal in more detail at subsequent TMPG meetings.

- The TMPG then received an update from a working group formed to study the use of reference rates relevant to the TMPG covered markets. Working group members provided a preliminary overview of the federal funds open, an indicative price level determined by ICAP that is intended to capture where transactions are being priced at the beginning of the U.S. trading day. Members agreed to continue the discussion at future meetings of how this and other reference rates relevant to the TMPG covered markets (including 10:00 a.m. repo rate averages and aggregate bond indices) are calculated and used in financial transactions, trading patterns around the setting of these reference rates, and any associated potential best practices. Working group members also highlighted draft recommendations released in the Financial Stability Board's, Foreign Exchange Benchmark Group's, [Foreign Exchange Benchmarks - Consultative Document](#)¹ and discussed whether some of these draft recommendations might also be applicable in TMPG covered markets. The TMPG agreed to continue discussion of potential practice recommendations at future meetings.
- The Group then received a brief update from a working group formed to conduct a high-level review of high-speed electronic trading in TMPG covered markets. Members reviewed

¹ The final report on *Foreign Exchange Benchmarks* was published to the Financial Stability Board's website on September 30, 2014 and is available at http://www.financialstabilityboard.org/publications/r_140930.pdf

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an outline for a white paper on the topic and agreed to continue discussion of how the paper could inform potential best practice recommendations at subsequent meetings.

- TMPG members then reviewed summary statistics related to its [agency MBS margining recommendation](#), which remained in line with the statistics reported at its [June meeting](#).
- Members then discussed issues raised by industry groups related to the applicability of the agency MBS margining recommendation to agency multifamily and project loan securities, in particular the existing safeguards prevalent in multifamily transactions such as the good faith deposit. Members noted that the good faith deposit does not serve the same purpose as two-way variation margin because it is one-way, and may not provide similar protection in the event of a counterparty default. Members concluded that the scope of the TMPG's best practice recommendation remains appropriate. The Group agreed that market participants should continue to implement best practice recommendations for agency multifamily and project loan securities, and other covered securities, on a rolling basis using a risk-based approach and prioritizing their most material exposures.
- The next TMPG meeting will take place on Thursday, October 16, from 4:00-6:00 PM.



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APPENDIX:

OVERVIEW OF SIFMA EQUITY AND FIXED INCOME MARKET RESPONSE COMMITTEES & THEIR ROLE

SEPTEMBER 2014

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Committee Purpose & Objective

- **Equity Market Response Committee:**
 - **Purpose:** To collectively discuss, evaluate, and communicate the proper course of action for the US Equity Market, including closure if necessary, in the event of a disruption that may affect fair and orderly operations.
 - **Objective:** To provide market participants and other markets (options, futures, etc.) that are linked to the US Equity Market with the necessary guidance to prepare for and/or respond to the crisis.
 - **Committee Formation & Authority:** Representatives (one primary and one back up) to the Committee are appointed by SIFMA's Board of Directors. There are also representatives from the major equity exchanges, the derivative markets (options and futures), market utilities and the regulators. The individuals from all participants have sufficient seniority within their institutions to speak on behalf of their firm or agency about recommendations for potential market actions.
- **Fixed Income Market Response Committee:**
 - **Purpose:** To determine if the issuance of a special trading or settlement recommendation is warranted with respect to U.S. dollar denominated OTC fixed income cash, securities financing and securities lending markets.
 - **Objective:** To provide market participants and other global market participants that are linked to the US Fixed Income Markets with the necessary guidance to prepare for and/or respond to the crisis.
 - **Committee Formation & Authority:** Representatives (one primary and one back up) to the Committee are appointed by SIFMA's Board of Directors. There are also representatives from the key infrastructure providers and other key market participants for the fixed income markets including: DTCC, the clearing banks, inter-dealer brokers/electronic trading platforms and the public sector. The individuals from all participants have sufficient seniority within their institutions to speak on behalf of their firm or agency about recommendations for potential market actions.
- In order to enhance transparency to market participants and the public, SIFMA will publish the procedures of the Committees along with the guiding principles on their external website.

Convening the Committee

- The process will typically be kicked off by a crisis event either internal or external to the markets.
- Some examples of threats that could lead to a crisis or emergency event are:
 - Severe Weather/Natural Disaster (Hurricane, Tornado, Earthquake)
 - Failure of Critical Infrastructure (Power Interruption, Water Availability, Telecom Outage)
 - Pandemic or Infectious Disease
 - Terrorist Attack / Acts of War / Civil Unrest
 - Cyber Attack
 - Disruption of Equity or Fixed Income Operations (SIP Failure, Financial Utility Disruption)
 - Declaration of a National Holiday (i.e., death of a current or former President)
- The process is structured so that the two committees can meet together or independently based on the situation.
- SIFMA can be made aware of the need to convene the committees via a number of difference mechanisms:
 - Recommendations from SIFMA Members
 - Recommendation from Treasury, SEC or FRB
 - SIFMA staff leadership (CEO or Principle Staff Advisor) based on information gathered from BCP points of contact, government agencies or FS-ISAC
- Committee Unable to Convene:
 - In the unlikely event that the Committee is unable to convene, the Committees grant SIFMA's CEO (or in his or her absence, the Principal Staff Advisor to the Committee) independent authority to issue recommendations or other reasonable actions
 - In this case the SIFMA representative would expend all efforts to consult with the other stakeholders in order to guide the recommendation:

Committee Composition

Market Response Committees are composed of a combination of representatives from firms, market exchanges, utilities, the public sector, and SIFMA staff.

Firms

- There are 37 firms represented on the Equity Market Response Committee and 36 firms represented on the Fixed Income Market Response Committee, varying in size and activities, from across the industry
- The composition of the committees will change annually based on the composition of the SIFMA Board.

Market Exchanges, Utilities, Trades and Public Sector

- There are 18 exchanges, financial market utilities, trades and regulators represented, covering all key functions within the Equity and Fixed Income Markets

SIFMA Staff

- SIFMA has 11 individuals on staff trained and cross trained to convene and guide the committees' processes

Guiding Principles – Fixed Income Markets

- **Unscheduled Closing is Extraordinary:** Absent extraordinary circumstances, the U.S. fixed income markets, should remain open whenever possible. Therefore, the Committee's decision to recommend unscheduled market closings should always be viewed by the Committee as an action of last resort.
- **Serious Impairment to market functioning/threat to human safety:** The Committee should only recommend an unscheduled market closing recommendation when the OTC cash, repo and/or securities lending markets' ability to operate is seriously impaired or if opening the market would pose serious risk of danger to human safety.
- **Closures by key participants:** The Committee should strongly consider recommending a close whenever the NYSE, DTCC, FRBNY, Bank of England or Bank of Japan has already declared an unscheduled full market closure or an early close in the relevant country.
- **Infrastructure/transportation disruptions:** The Committee should strongly consider recommending an unscheduled full or early market closure in the U.S. when there is significant and severe disruption to the overall New York metropolitan area's power, telecommunications or transportation system. While the loss of a single transit provider (i.e., LIRR, MTA, New York City) would not constitute a significant disruption of transportation services, a more general loss of transportation services (bus, rail and/or ferry) in and out of Manhattan or other type of widespread critical infrastructure outages (power, telecommunications) due to severe inclement weather conditions or unforeseen events, would justify recommending an unscheduled full market close or early market close.
- **Targeted at Trading Activities:** Unless otherwise specified, recommended closes should be recommendations to close the trading activities and not attempt to address the appropriate settlement date for certain OTC fixed income transactions.
- **Impacts on Global Fixed Income Markets:** The Committee should always consider the effects that unscheduled market closure could have on the global fixed income cash markets, securities financing markets and securities lending markets and not only the effects to a specific geographic region.

Guiding Principles – Equity Markets

- **Unscheduled Closing is Extraordinary:** Absent extraordinary circumstances, the U.S. equity markets, should remain open whenever possible. Therefore, the Committee’s decision to recommend unscheduled market closings should always be viewed by the Committee as an action of last resort.
- **Appropriate Response:** Closing the equity markets will be an appropriate response in certain crisis events in the interests of the protection of human safety and the integrity of the markets.
- **Types of Events:** It is not possible to identify all of the events that could lead to a market closure, abbreviated trading sessions, or the market-wide implementation of disaster recovery plans, but those circumstances would include extreme events of weather or natural disasters, acts of terrorism, cyber attacks, and pandemics.
- **Factors of Closure:** Any consideration of market closures, or other recommended courses of action, should take into account market factors, including the ability of major market centers to operate, the need for systems or market changes to accommodate a market center’s disaster recovery plans, and the ability of market participants to provide a fair and orderly markets. Generally, however, any one market factor (e.g., issues with a single primary listing exchange or a market event such as options expirations or index rebalancing) should not necessitate a market closure in the absence of other factors.
- **Threshold Question:** In circumstances triggering this protocol, the threshold question should be whether or not to open or close the equity markets overall, prior to considering of the operability of specific market centers.
- **Scope of Protocol:** The Market Response Committee does not supersede or replace the regulatory obligations of any Committee member. Rather, this protocol is designed to set forth a communications process in which market participants can effectively organize and follow a structured procedure to discuss the current state of the markets in a reasonable period of time and generate a consensus view if possible.

Committee Calls - Items for Consideration & Key Questions

Market Response Committee calls are structured to cover key issues necessary to assess an event affecting the markets, understand its implications and develop recommendations. Key issues to be covered on any committee calls include:

- **Information Dissemination:** Committee should immediately receive and convey information on the scope, duration and impact of the emergency and its impact on normal trading operations.
- **Possible steps by Market Participants:** The Committee should identify any voluntary cooperative steps that market participants might undertake to facilitate a prompt resumption of normal conditions.
- **Possible Regulatory Steps:** What regulatory implications could arise?
- **Calendar Considerations:** Are there any activities specific to the date or upcoming dates that can't be shifted?
- **Recommendations to Specific Market Participants:** The Committee may make recommendations to specific participants, classes of participants or the market as a whole that might be taken to mitigate the impact of the crisis event and facilitate a smooth and prompt resumption of normal trading activities.
- **Key Questions to be Answered**
 - **Equity Market Response Committee:**
 - Primary Listing Exchanges' Status
 - SIPs functioning?
 - NSCC and DTC functioning?
 - Derivative Exchanges' Status
 - Status of Market Makers and/or Significant Market Participants
 - Is integrity compromised? (e.g. market data, underlying infrastructure)
 - **Fixed Income Market Response Committee:**
 - Are there Treasury auctions scheduled?
 - Are there scheduled Federal Reserve operations?
 - Is the Fedwire open?
 - Is the settlements system operating (FICC etc.)?
 - Are the clearing banks operating?
 - Are the IDBs/electronic trading platforms operating?
 - Status of futures exchanges?
 - Can the primary dealers staff the funding desks?
 - Can the primary dealers staff the Treasury cash trading desks?

Framework for Discussions

- The following is the general framework that will be followed when executing the Equity and/or Fixed Income Market Response Committee calls. Since these calls in the time of crisis may include more than 100 participants orderly execution is critical in order to pass information on the crisis, identify key problems and how they are being addressed and develop a recommendation that can be communicated.
- Open the call (SIFMA Staff)
 - Identify the purpose of the call
 - Identify who is moderating and facilitating the call
 - Provide the status (all muted, all live, etc.)
- Role Call by Organization (SIFMA Staff)
- Situational Report on the Crisis
 - General
 - Infrastructure Status
 - Market Status
 - Derivative Market Status
 - Input from member firms on ability to conduct operations
- Discuss the Situation and Determine a Course of Action (All Committee Members)
- Summarize the Key Issues and Definitive Actions (SIFMA Staff)
- Agree on Next Meeting Date and Time and Close the call (SIFMA Staff)

Framework for Discussions – Fixed Income Markets

- The following is the framework that will be followed when executing the Fixed Income Market Response Committee calls. Since these calls in the time of crisis may include more than 100 participants orderly execution is critical in order to pass information on the crisis, identify key problems and how they are being addressed and develop a recommendation that can be communicated.
- Open the call (SIFMA Staff)
 - Identify the purpose of the call
 - Identify who is moderating and facilitating the call
 - Provide the status (all muted, all live, etc.)
- Role Call by Organization (SIFMA Staff)
- Situational Report on the Crisis
 - General
 - Update from Federal Reserve/Treasury regarding the emergency (SIFMA Staff and/or Treasury/FRB)
 - Update on general crisis situation (SIFMA Staff (physical) or FS-ISAC Staff (cyber))
 - Infrastructure Status
 - Update from NY Fed on status of Fedwire (NY Fed representative)
 - Report from FICC on any delays/changes in their processes (FICC representative)
 - Report from clearing banks on any delays/changes in their processes (BNY Mellon and JPMC representatives)
 - Market Status
 - Impact of emergency event on scheduled U.S. Treasury security auctions (SIFMA and/or U.S. Treasury)
 - Impact of emergency event on any scheduled open market operations of the Federal Reserve Bank of New York (New York Fed representative)
 - Input from member firms on ability to function (Member Firms)
- Discuss the Situation and Determine a Course of Action (All Committee Members)
- Summarize the Key Issues and Definitive Actions (SIFMA Staff)
- Agree on Next Meeting Date and Time and Close the call (SIFMA Staff)

Communicating the Recommendation

- The Market Response Committee's recommendations (e.g. a unscheduled market close recommendation) shall be announced in a press release by SIFMA and posted on SIFMA's website. SIFMA's notification will not be exclusive, and may be supplemented by notices from other industry participants.
- The goal will be to disseminate the recommendation as broadly as possible using all available channels.
- In addition, a key consideration will be impact on trust and confidence within the markets by firm clients. Depending on the recommendation, further communication processes may be kicked off in order to calm markets and maintain confidence in the markets ability to respond to the crisis and to recover in a timely manner.
- These additional communication processes will occur via a coordinated plan between the public and private sector.

Historical Market Closures

Incident Type	Years with NYSE Closures
Infrastructure	Railroad / Transit strike: 1946, 1965, 1969, 1977 Blackout / Power Failure 1966, 1981, 1990, 1991
Weather	Severe Weather: 1948 Snow / ice storms: 1960, 1969, 1973, 1975, 1978, 1994, 1996 Hurricanes: 1976, 1985, 2012*
Market Incident	1987
Civic Commemorations	1961 Decoration Day, 1963 Kennedy Funeral, 1964 Hoover Funeral, 1968 MLK Day of Mourning, 1969 Lunar Exploration Day, 1972 Truman Funeral, 1994* Nixon funeral, 2005* Reagan memorial, 2007 Ford memorial
National Emergencies	1963 Kennedy assassination, 1981 Assassination attempt on Reagan, 2001* 9/11 Attacks
Paperwork Crisis	1967, 1968, 1969, 1970
Computer system problems	1974, 1975, 1977, 1980, 1983, 1995, 1998, 2001, 2005, 2009
NYSE Building Issues	Fires / Fire Alarm malfunctions 1977, 1981, 1982, 1989, 1990

* Incidents which also resulted in fixed income market closure since 1990

Note: NYSE market closures since 1945, doesn't not include delayed openings, source: <http://www1.nyse.com/pdfs/closings.pdf>