TMPG Meeting Minutes
October 21, 2013

TMPG attendees

Art Certosimo (BNY Mellon)	Michael Garrett (Wellington)	Gerald Pucci (BlackRock)
Julia Coronado (BNP Paribas)	Beth Hammack (Goldman Sachs)	Nancy Sullivan (BNY Mellon)
Daniel Dufresne (Citadel)	Curt Hollingsworth (Fidelity)	Mark Tsesarsky (Citigroup)
Brian Egnatz (HSBC)	Jim Hraska (Barclays)	Tom Wipf (Morgan Stanley)
John Fath (BTG Pactual)	Murray Pozmanter (DTCC)	Matt Zames (J.P. Morgan)

FINRA attendees

Alie Diagne	Mehrdad Samadi	Bill Wollman
Steve Joachim	Jonathan Sokobin	

FRBNY attendees

Joshua Frost	Susan McLaughlin	Susmitha Thomas
Frank Keane	Simon Potter	Janine Tramontana
Lorie Logan	Roman Shimonov	Nate Wuerffel

- The meeting commenced with a welcome to new member Julia Coronado, from BNP Paribas.

- Representatives from the Financial Industry Regulatory Authority (FINRA) presented to the Group on TRACE reporting in the Agency MBS markets (see appendix). The FINRA representatives discussed certain summary data regarding trading in the To-Be-Announced (TBA) and specified pool markets following the introduction of public TRACE reporting.
    - Some TMPG members shared views regarding the potential initial impact of TRACE reporting on agency MBS market depth and liquidity, as well as what they saw as possible differences between TRACE reporting within the markets for corporate bonds and agency MBS.
    - The Group commended FINRA on its efforts to promote market transparency and its consideration of feedback from TMPG members, and noted that transparency was also an ongoing priority for the TMPG.

- The discussion then shifted to recent market developments, focusing principally on the impact of the government shutdown and debt ceiling episode on the state of market functioning.
    - Members reiterated their concern that a delayed payment on Treasury debt, even if only temporary, would cause significant damage to and undermine confidence in the markets for Treasury securities and other assets. Some members expressed the view that the risks of a technical Treasury default could have severe and unforeseen consequences across markets that may not be fully understood by policy makers or market participants. In addition, members shared concerns about the long-term impact of recurring debt ceiling episodes on fixed income markets and the U.S. Treasury's cost of borrowing.

  - Some members observed that during this episode, more market participants seemed to be managing risks earlier and more comprehensively than most participants had done in 2011. Members further noted that, as a result, market stresses emerged earlier and continued for a longer period than in 2011. Some members expressed concern that such market stresses might be even more widespread or arise earlier in the future.

- The Group then discussed some lessons learned from the recent debt ceiling episode.
  - Members acknowledged the contributions of industry groups to help coordinate contingency planning responses and channel communications across market participants.
  - Some members noted that greater clarity around potential official sector actions with respect to the timing and medium of communications could have been beneficial.
  - Certain members expressed uncertainty around the operational capabilities of the Fedwire system and the ability of the Federal Reserve to meaningfully address financial market disruptions following a delayed Treasury payment.
  - Some members suggested that coordination and contingency planning by pricing vendors needed further improvement.
  - Members discussed a complication surrounding the financing of one-day-to-maturity securities in the tri-party repo market, which could be particularly problematic in debt ceiling scenarios. Specifically, market participants have noted that the maturation of a security used as collateral in a repo transaction could leave the repo uncollateralized for some time. In addition, the treatment of maturing securities varies across clearing banks and is not well understood by market participants, and the exposures that result may not be well understood either. Members broadly agreed that it would be important to determine how best to handle these securities in tri-party repo operations for both day-to-day operations and in a scenario in which there was a delayed payment and the maturity date for maturing securities is rolled forward on Fedwire.
  - Members reaffirmed the relevance of the potential practices discussed by the TMPG during its June 28, 2012 meeting in which members noted that prior to the close of Fedwire the day before a principal payment is due, the maturity date field would be rolled forward by one day. Members noted that the operational implications of a security that is not rolled forward and is therefore no longer transferable on Fedwire would be severe.
  - Members discussed the need for a common vocabulary of key terms for planning related to operational readiness for debt ceiling related processes and to generally facilitate clear communications and timely cross market coordination.
  - More broadly, members highlighted the value of compiling a playbook of emergency responses for financial markets which would identify key decision points and appropriate communication channels, and could be used as a procedural reference during a debt ceiling episode or other contingency events.

- Members then turned to a discussion of its best practice recommendation to margin forward-settling agency MBS transactions.
    - The Group agreed that, in response to questions received, further clarification on the group's best practice recommendation would be beneficial with respect to the applicability of the practice recommendation across market participants and for transactions that are failing at settlement, and considerations when implementing this best practice recommendation.
    - The Group agreed to release additional guidance on these topics with revised frequently asked questions for margining agency MBS transactions.
    - The Group again reaffirmed its recommendation that market participants substantially complete the process of margining forward-settling agency MBS exposures by December 31, 2013.

- The TMPG agreed to defer its discussion of preparations around Floating Rate Notes to a future meeting given time constraints.

- The next TMPG meeting will take place on Wednesday, November 20, from 4:00-6:00 PM.

TMPG Teleconference Meeting Minutes – *November 12, 2013*

TMPG attendees

Julia Coronado (BNP Paribas)	Jim Hraska (Barclays)	Tom Wipf (Morgan Stanley)
Daniel Dufresne (Citadel)	Gerald Pucci (BlackRock)	
Michael Garrett (Wellington)	Stu Wexler (ICAP)	

FRBNY attendees

Joshua Frost	Simon Potter	Nate Wuerffel
Frank Keane	Susmitha Thomas	
Lorie Logan	Janine Tramontana	

- On November 12, the TMPG held a brief teleconference to discuss general market preparedness for the introduction of Treasury Floating Rate Notes (FRN) early next year and to review progress in implementing the TMPG's agency MBS margining practice recommendation.

- TMPG members broadly noted that their firms were operationally prepared for Treasury's first FRN auction, which is expected to occur in late January.

- The Group then discussed its best practice recommendation to margin forward-settling agency MBS transactions.

- Members highlighted increased momentum among market participants in moving negotiations toward conclusion. Overall, members were encouraged by an apparent industry push to substantially complete margining of forward-settling agency MBS transactions by year end.
- Some members of the TMPG noted their attendance at events organized by the Fixed Income Forum and the Bond Dealers of America to discuss the TMPG's agency MBS margining recommendation. Members discussed feedback from these events, and other industry trade association forums. The group also discussed questions raised by these and other industry groups regarding the effective implementation date for the recommendation, the margining of transactions that are failing at settlement, and the definition of forward settlement for To-Be-Announced, specified pool and adjustable-rate mortgage transactions, and collateralized mortgage obligation transactions. The Group agreed that no changes should be made to the recommendation with respect to these issues. Members agreed to continue to direct market participants to the existing practice and recently revised frequently asked questions for margining agency MBS transactions for additional guidance.
- Members agreed to continue to closely monitor progress toward implementation of margining for forward-settling agency MBS transactions through year-end. In addition, the TMPG unanimously reaffirmed its recommendation that market participants substantially complete the process of margining forward-settling agency MBS exposures by December 31, 2013.

APPENDIX

FINRA TRACE:
Trade Reporting and Compliance Engine

Treasury Market Practices Group

October 2013

FINRA™

Financial Industry Regulatory Authority

Agenda

- Status of the TRACE Program
- Characteristics of the TBA market
- Volume trends
- Questions and Discussion

TRACE Program Status

<table>
<tr><th>Segment</th><th>Trade Reporting</th><th>Approach</th><th>Current status</th><th>Scope</th></tr>
<tr><td>Corporate Debt</td><td>July 2002</td><td>Phased in dissemination and gradually reduced reporting time</td><td>Reportable within 15 minutes, Real-time dissemination of all publicly traded securities.
SEC approved disseminated of Rule 144A transactions, which will be implemented in 2014.</td><td>Over 60,000 CUSIPs</td></tr>
<tr><td>Agency Debentures</td><td>March 2010</td><td>Subject to immediate dissemination</td><td>Reportable within 15 minutes, Real-time dissemination</td><td>Just under 20,000 CUSIPs</td></tr>
<tr><td>To-Be-Announced</td><td rowspan="4">May 16, 2011</td><td rowspan="4">Initially reporting only, FINRA to study the data to propose dissemination policy</td><td>Disseminated as of 11/12/2012.
GD reportable in 15 minutes. NGD reportable in 1 hour.</td><td>Over 40,000 CUSIPs</td></tr>
<tr><td>Specified Pools</td><td>Dissemination based on pool characteristics as of 7/22/2013.
Reportable within 2 hours of execution. Will change to 1 hour in January 2014.</td><td>Over 1 million CUSIPs</td></tr>
<tr><td>Asset Backed Securities*</td><td>Reportable on T (as of 11/18/2011)
Trade dissemination approved by FINRA Board.
Proposal will be filed with the SEC and published for Notice and Comment.</td><td>Over 30,000 CUSIPs</td></tr>
<tr><td>CMO/REMIC / RMBS</td><td>Reportable on T (as of 11/18/2011).
Dissemination TBD</td><td>Just under 250,000 CUSIPs</td></tr>
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Fact and Figures

- **2013, ending September**

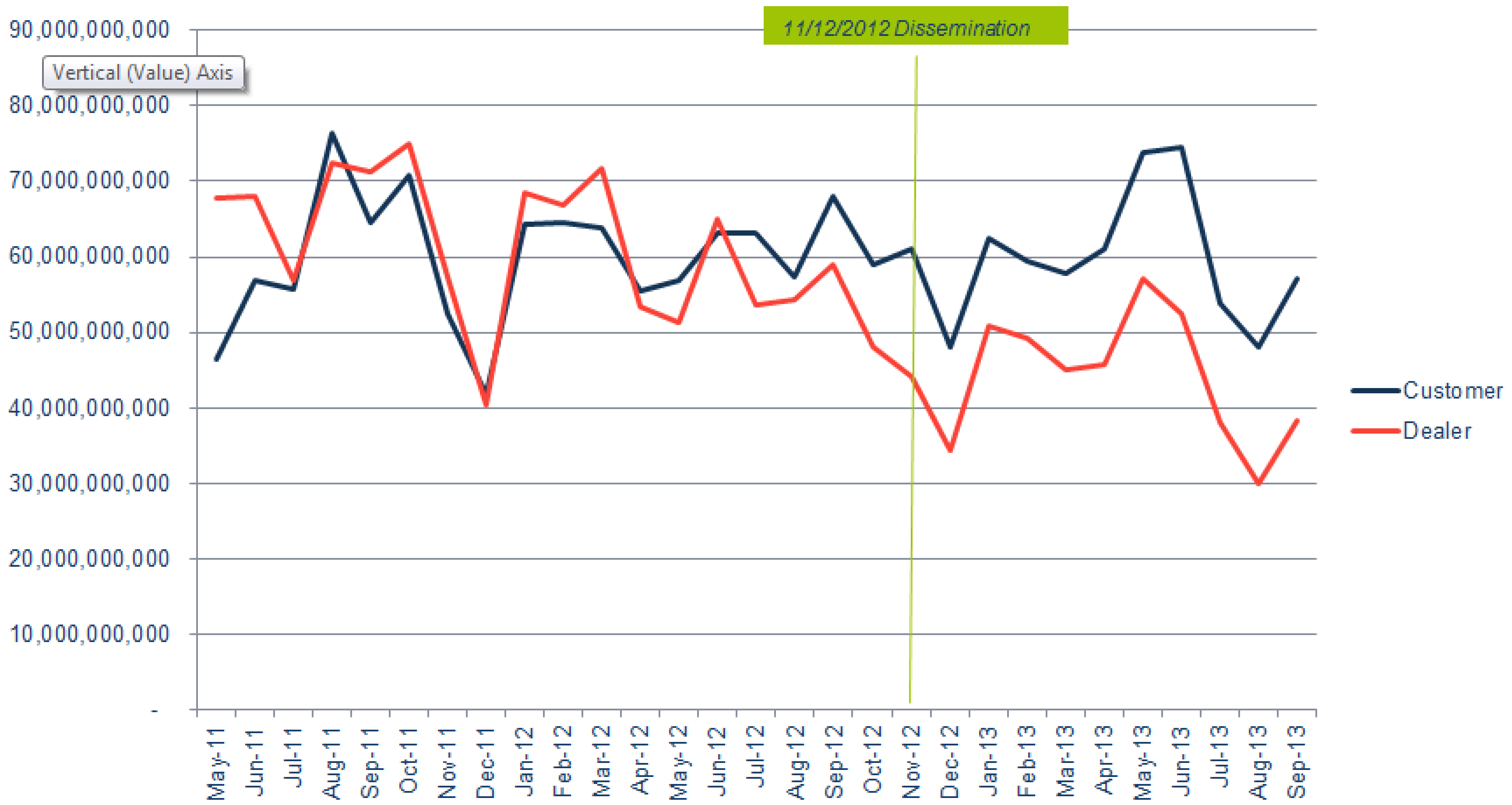
	Securitized Products		
	MBS	**TBA Dollar Roll**	**TBA Non-Dollar Roll**
Average Daily Par Value	$17.5 Billion	$119 Billion	$106 Billion
- Customer Par Value %	84%	62%	57%
Average Daily Trades	3.7K	1.7K	5.8K
- Customer Trades %	68%	42%	36%
- Retail Sized Customer (less than $100K) Trades % of Total Customer Trades	38%	0.3%	1.7%
Average Trade Size	4.7 Million	69.4 Million	18.4 Million
Unique Reporting Firms	538	160	
Average Daily Reporting Firms	118	74	

Trading Concentration by Product Types

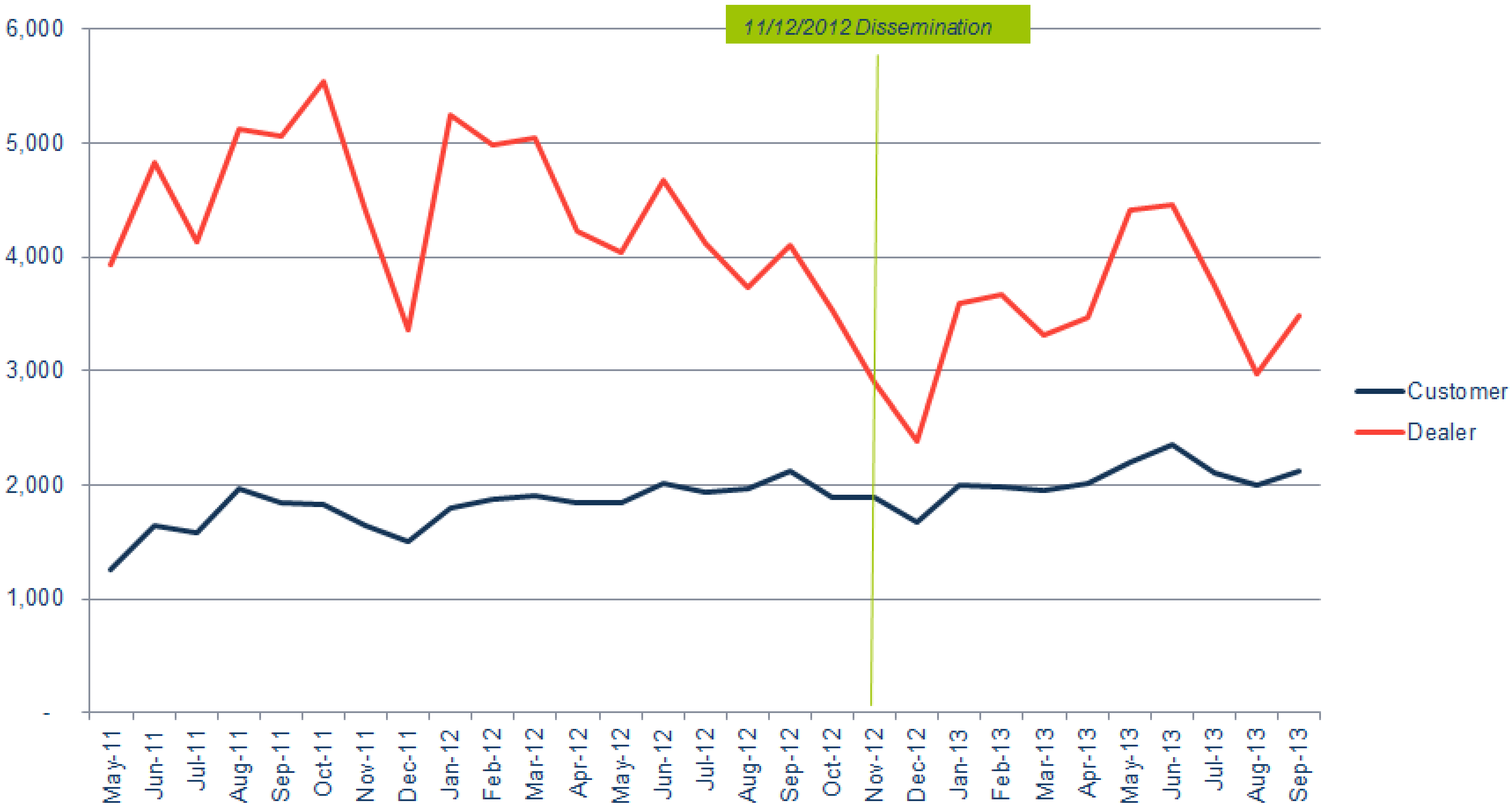
- **99% of trading is in single family products.**
- **75% of trading in Fannie Mae issued pools**
  - Two thirds in 30-year Single Family Fannie Mae pools.

	Freddie Mac	Fannie Mae	Ginnie Mae I	Ginnie Mae II	Total
Single Family	**11.0%**	**74.9%**	**6.2%**	**7.7%**	**99.9%**
15yr	2.0%	12.5%	0.0%	0.0%	14.6%
30yr	8.9%	62.3%	6.2%	7.7%	85.2%
other maturity	0.0%	0.1%	-	0.0%	0.1%
Multi-Family	**-**	**0.1%**	**-**	**-**	**0.1%**
15yr	-	0.0%	-	-	0.0%
30yr	-	0.0%	-	-	0.0%
other maturity	-	0.0%	-	-	0.0%
Other Product Type	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.1%**
15yr	-	-	0.0%	-	0.0%
other maturity	0.0%	0.0%	0.0%	0.0%	0.1%
Grand Total	**11.0%**	**75.0%**	**6.3%**	**7.8%**	**100.0%**

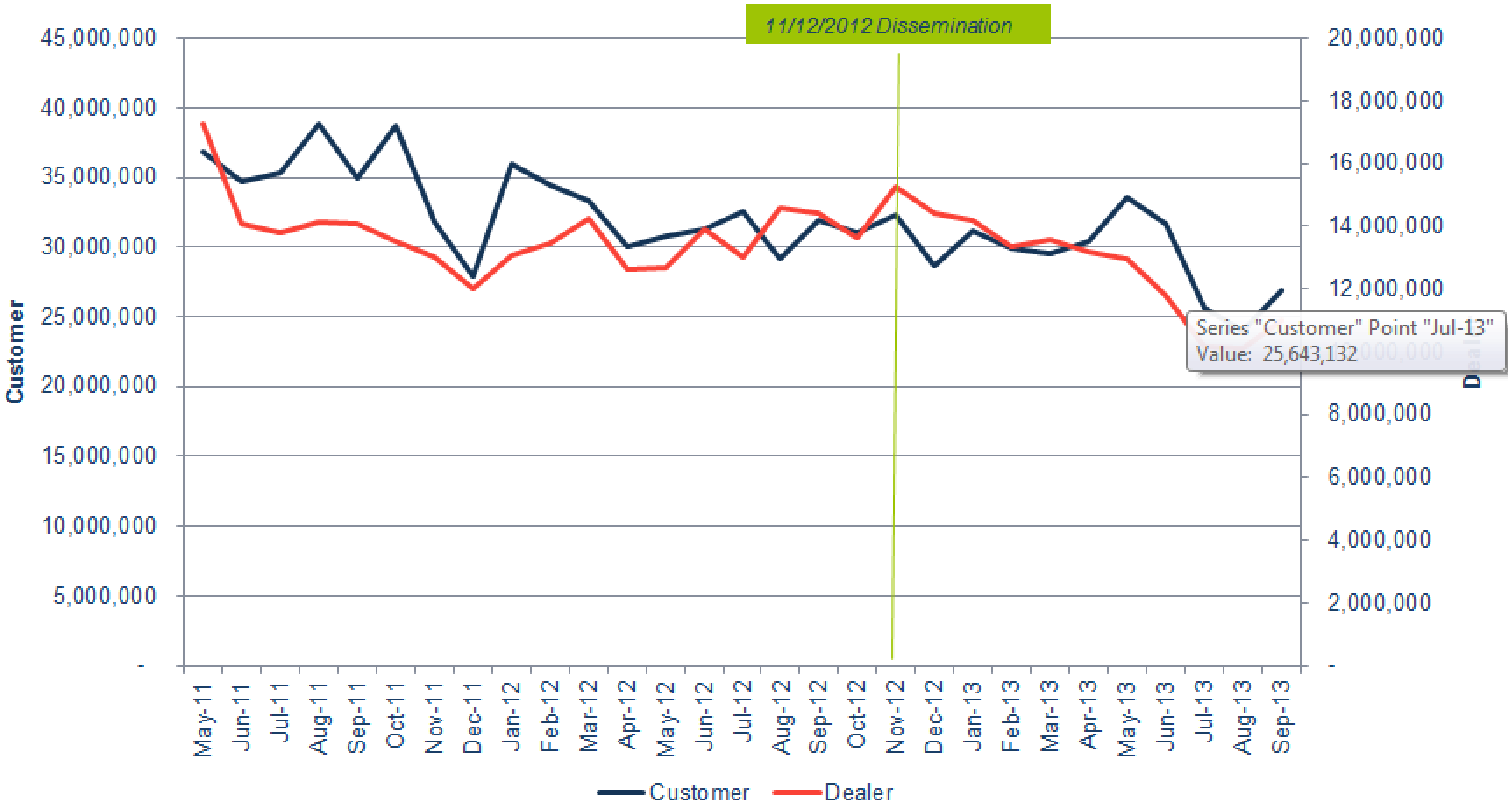
Average Daily Face Value – excluding Dollar Rolls



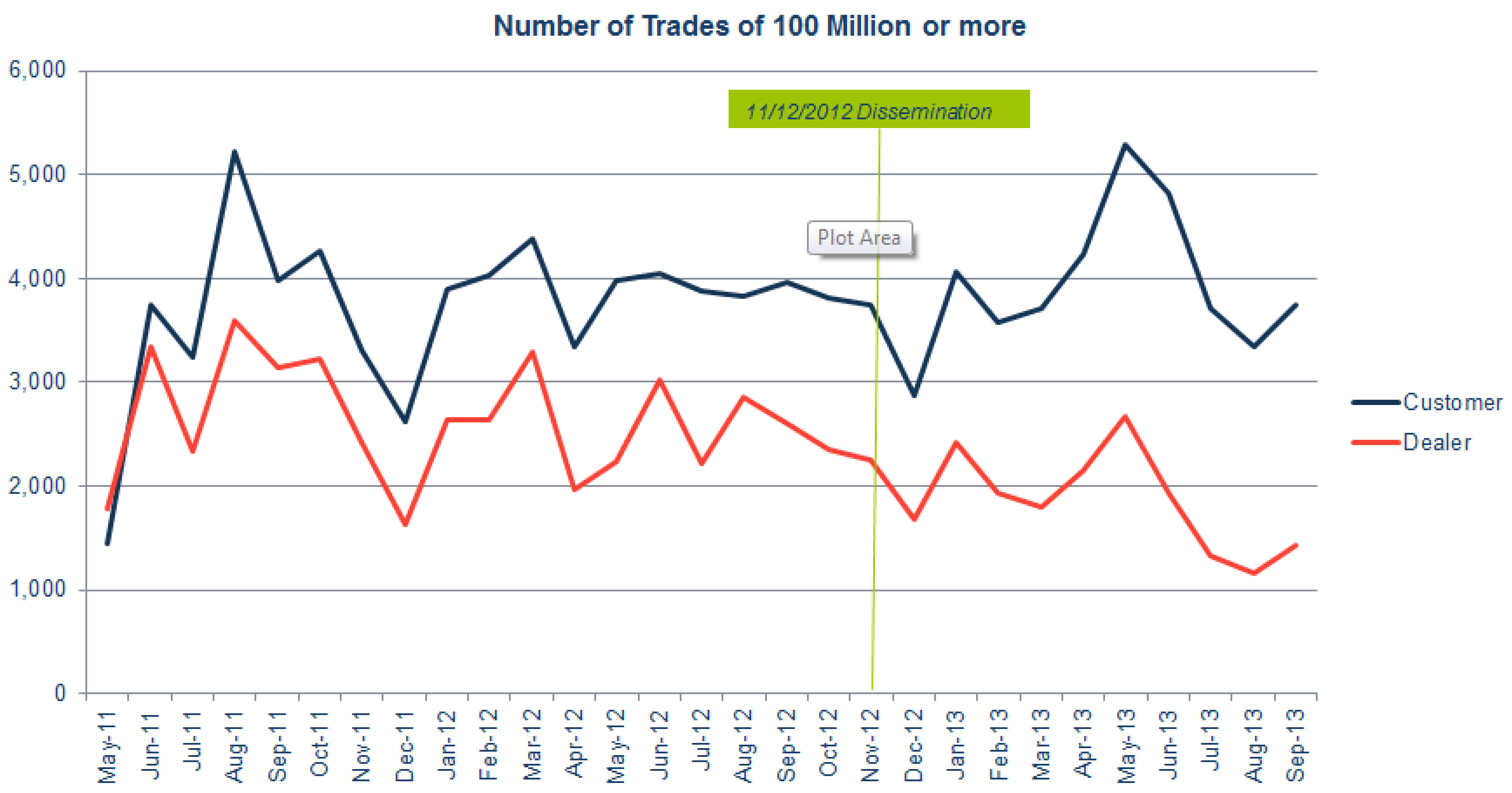
Average Daily Trades – excluding Dollar Rolls



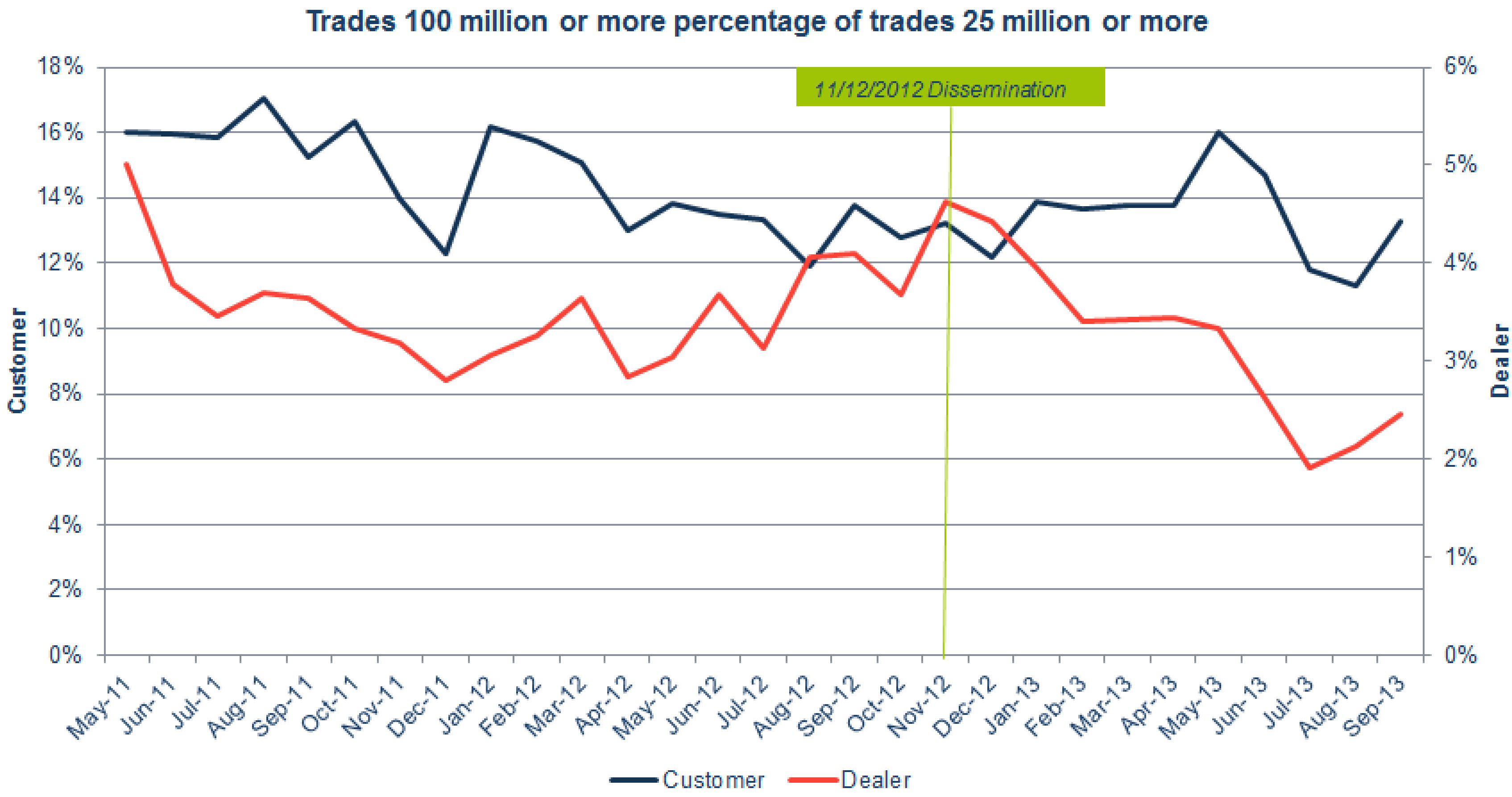
Average Trade Size – excluding Dollar Rolls



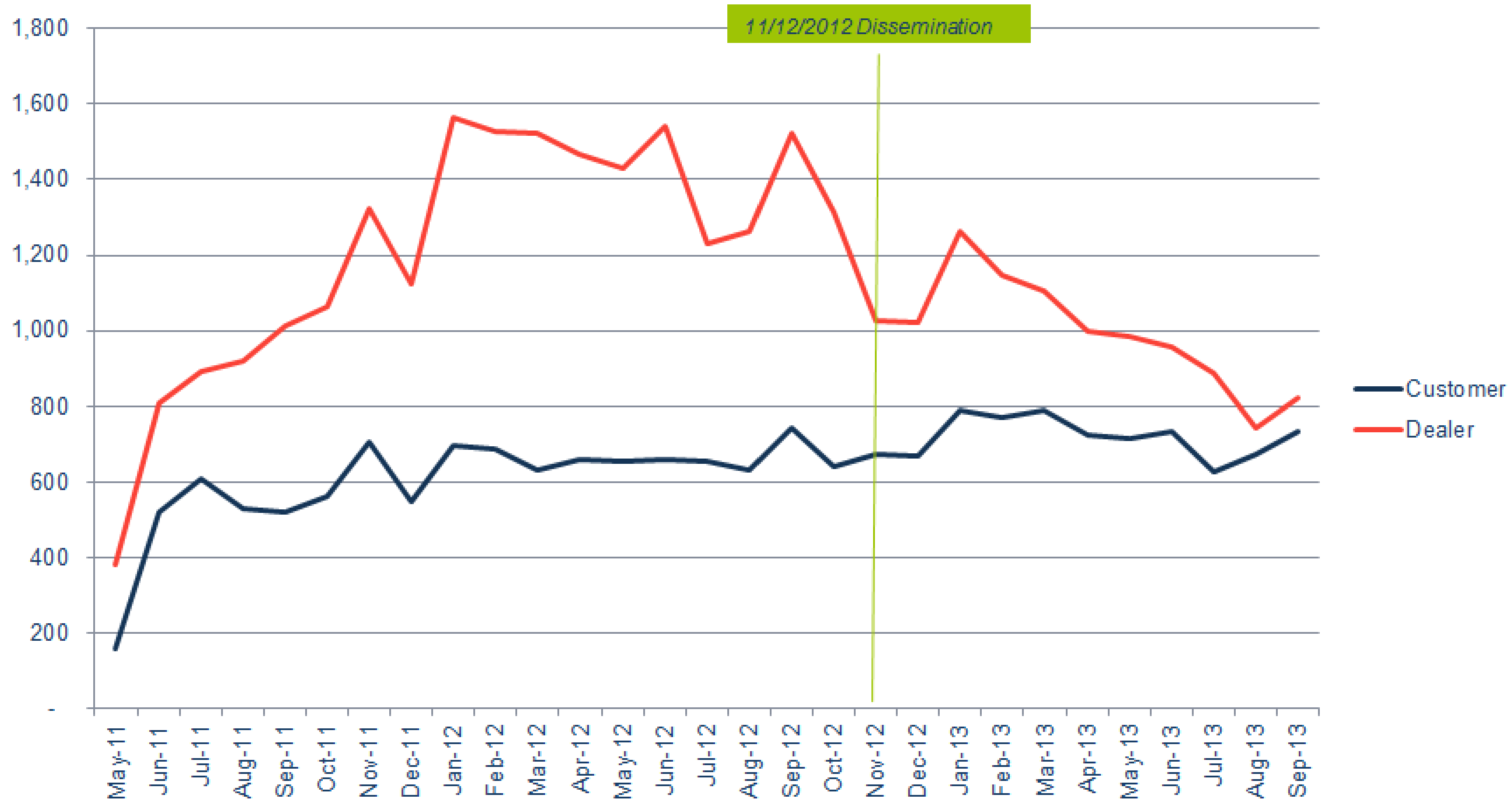
Trades of $100 Million or more



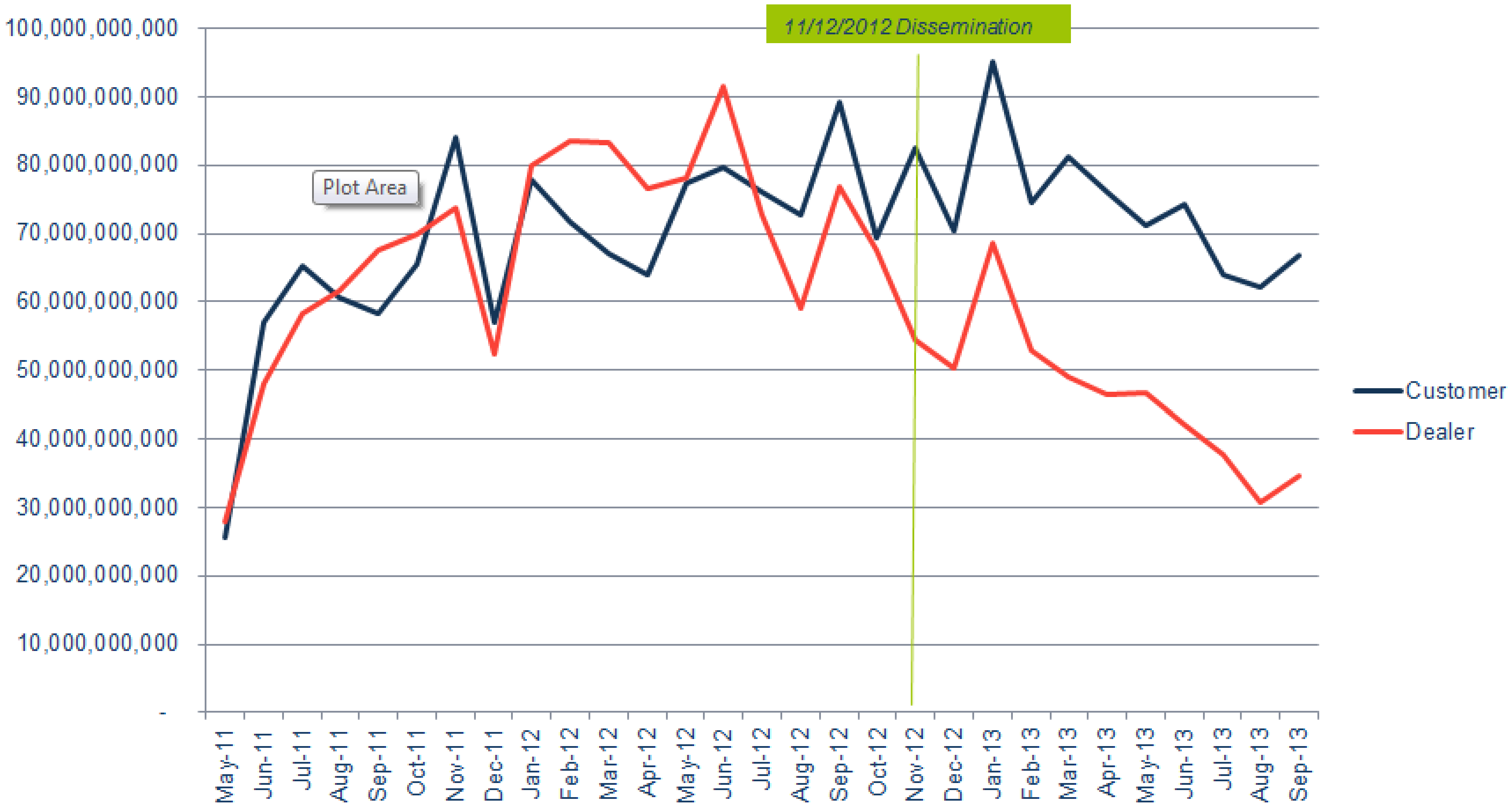
Proportion of Large Trades



Average Daily Trades – Dollar Rolls



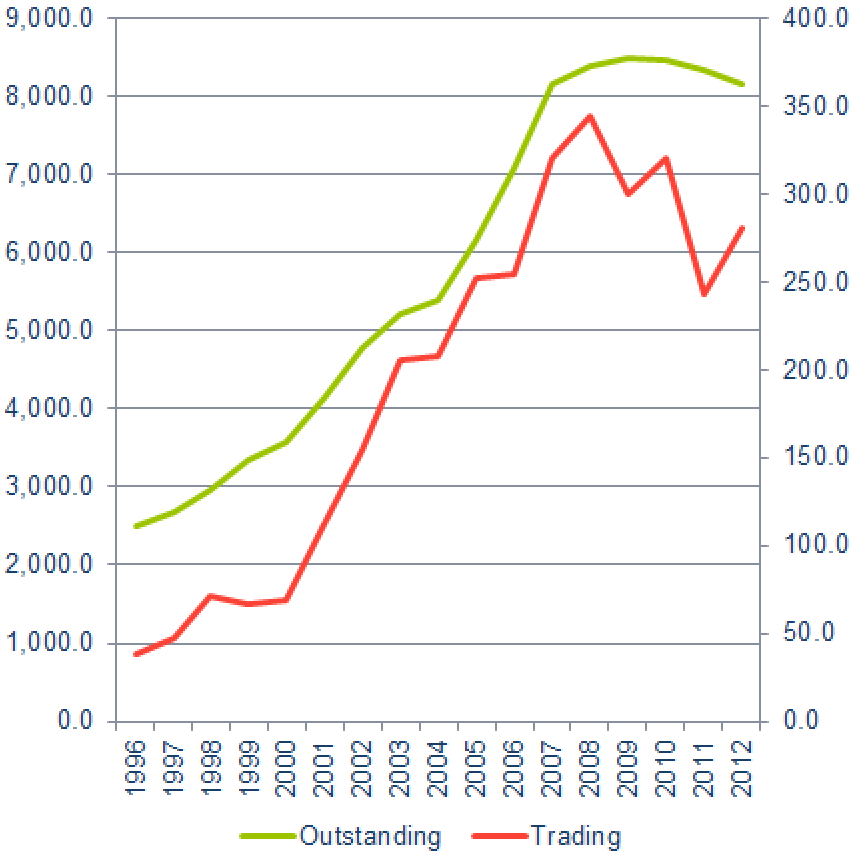
Face Value Traded – Dollar Rolls



Trading vs. MBS Outstanding and MBS Issuance

Correlation: 0.97

Source: SIFMA



Correlation: 0.65

Source: SIFMA