TMPG Meeting Minutes
March 10, 2014

TMPG attendees

Art Certosimo (BNY Mellon)
Julia Coronado (BNP Paribas)
Dan Dufresne (Citadel)
John Fath (BTG Pactual)
Michael Garrett (Wellington)
Beth Hammack (Goldman Sachs)
Jim Hraska (Barclays)
Vincent Legroux (Banque de France)
Murray Pozmanter (DTCC)
Gerald Pucci (Blackrock)
Nancy Sullivan (BNY Mellon)
Mark Tsesarsky (Citigroup)
Stu Wexler (ICAP)
Tom Wipf (Morgan Stanley)
Matt Zames (J.P. Morgan)

FRBNY attendees

Joshua Frost
Frank Keane
Michael Nelson
Simon Potter
Susmitha Thomas
Nate Wuerffel

- The meeting commenced with a welcome to new member Vincent Legroux, from the Banque de France New York representative office.

- Members then turned to a discussion of recent market developments including financial market expectations for the March FOMC meeting, and the Federal Reserve's Overnight Fixed-Rate, Reverse Repurchase Agreement Operational Exercise.

- The Group then discussed the TMPG's best practice recommendation to margin forward-settling agency MBS transactions.
    - Members reviewed summary statistics that indicated continued progress with the operationalization of executed agreements. At the end of February 2014, TMPG member firms had, on average, executed margining agreements with roughly 55 percent of their counterparties, which covered roughly 85 percent of their notional trading volume (excluding centrally cleared trades). Of the agreements that had been executed, most were now also operational, covering roughly 70 percent of the notional trading volume. The average distribution of minimum transfer amount levels, agreed to by TMPG member firms and their counterparties, as of February 14 was also reported at this meeting. The aggregated distribution, by notional trading volume, reported by TMPG member firms is below:
        - $0 to $100,000 – 19%
        - $100,001 to $250,000 – 62%
        - $250,001 to $500,000 – 16%
        - $500,000 or higher – 2%
    - The group then discussed FINRA's Regulatory Notice 14-02 and its relationship to the adoption of margining under the TMPG recommendation. A few members expressed concern that the execution of margining agreements by some market participants had slowed as the details of FINRA's Regulatory Notice 14-02 were processed by the market. Given the TMPG's view that its margining recommendation and the proposed FINRA rule amendments are complementary, members expect continued progress toward full adoption of TMPG margining

recommendation. 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. The TMPG agreed to continue to offer cooperation and consultation with FINRA as it moves through its process and to continue to work with industry groups toward a more complete adoption of the TMPG's margining recommendation.

- A few members expressed concern that some market participants have suggested that FINRA modify its proposed definition of forward settlement such that margining occur only on those transactions with a settlement cycle in excess of three business days. This change would not be consistent with the TMPG's margining recommendation and with those agreements already put in place under the practice recommendation. Members noted that the TMPG's definition of forward settlement for TBAs and specified pools (transactions with a settlement cycle in excess of one business day) reduces counterparty risk because a sizable volume of transactions occur within three days from settlement. In addition, members noted that the TMPG's definitions for forward settlement are consistent with the standard settlement conventions for the respective transaction types. Members also highlighted that, in addition to increasing counterparty risk, a change to the forward settlement definition would necessitate changes to the numerous agreements recently signed and margining systems put in place.

– The Group then received a preliminary update from a working group formed to conduct a high-level review of high speed trading in TMPG covered markets. The working group referenced slides released by the Treasury Borrowing Advisory Committee in November 2013, which described electronic trading and highlighted the incidence of high speed electronic trading in TMPG covered markets, which at the current time is mostly limited to U.S. Treasury on-the-run securities and futures. Members also discussed the SEC's market access rule (Rule 15c3-5), and noted that this rule, which applies to covered activity in securities, including TMPG covered products, requires broker-dealers providing access to markets to manage risks that arise from automated trading activities. Members agreed to further discuss high speed trading activity in the TMPG covered markets at subsequent meetings.

– The TMPG then agreed to release a revised version of its *Best Practices for Treasury, Agency Debt, and Agency Mortgage-Backed Securities Markets*. In the newly published version, the Group's subject-matter recommendations are more explicitly incorporated into its broad principles-based document as appendices. Members encouraged market participants to continue to practice both the general principles and the more specific practice recommendations that are included as appendices.

– Members briefly discussed the use of benchmarks in TMPG covered markets and agreed to create an inventory of most frequently used benchmarks before its next meeting.

– The next TMPG meeting will take place on Monday, April 7, from 4:00-6:00 PM.