

## TMPG Meeting Minutes

April 5, 2016

### TMPG attendees

Zahir Antia (Bank of Canada)	Gary Kain (American Capital Agency)	James Slater (BNY Mellon)
Julia Coronado (Graham Capital)	Steven Meier (State Street Global Advisors)	Mark Tsesarsky (Citigroup)
James DeMare (BAML)	Sandra O'Connor (JPM Chase)	Stuart Wexler (ICAP)
Dan Dufresne (Citadel)	Murray Pozmanter (DTCC)	Thomas Wipf (Morgan Stanley)
James Hraska (Barclays)	Gerald Pucci (Blackrock)	

### FRBNY attendees

Nashrah Ahmed	Michael McMorrow	Janine Tramontana
Josh Frost	Radhika Mithal	Nate Wuerffel
Michael Fleming	Simon Potter	
Frank Keane	Brett Rose	

- The meeting commenced with the Federal Reserve staff giving a summary of bilateral discussions with TMPG members regarding the TMPG's composition and forward-looking agenda. In these discussions, members suggested that membership should continue to be balanced between subject matter experts and members with broad knowledge of TMPG-covered markets. Members also suggested that representation by principal trading firms and smaller broker dealers could be beneficial.
- The Chair thanked departing member Mark Tsesarsky from Citigroup for his participation on the TMPG.
- The Group discussed the fact that ICAP, the publisher of the Fed Funds Open (FFO) rate, plans to discontinue publishing the FFO and other hourly effective rates beginning July 28, 2016.<sup>1</sup> TMPG members coordinating with the Risk Management Association (RMA) and the Securities Industry and Financial Markets Association (SIFMA) reported that the two industry groups were considering recommending the Overnight Bank Funding Rate as a benchmark for pricing and performance reporting purposes to replace the FFO rate. The TMPG was broadly supportive of the RMA and SIFMA's recommendation to replace the use of the ICAP FFO as a financial indicator with a rate that is more consistent with international best practice recommendations.<sup>2</sup>
- The TMPG then discussed trends in settlement fails as a follow-up to its initial discussion at the Group's [January meeting](#). Fed staff reviewed the notable spike in Treasury settlement fails in March when fails rose to the highest level since the implementation of the TMPG's recommended Treasury fails charge in May 2009 (see reference charts in the Appendix). It was

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<sup>1</sup> ICAP has subsequently announced that it will extend the discontinuation date of the FFO to October 1, 2016.

<sup>2</sup> On May 4, 2016 the TMPG [announced](#) its support for the RMA's and SIFMA's recommendation.

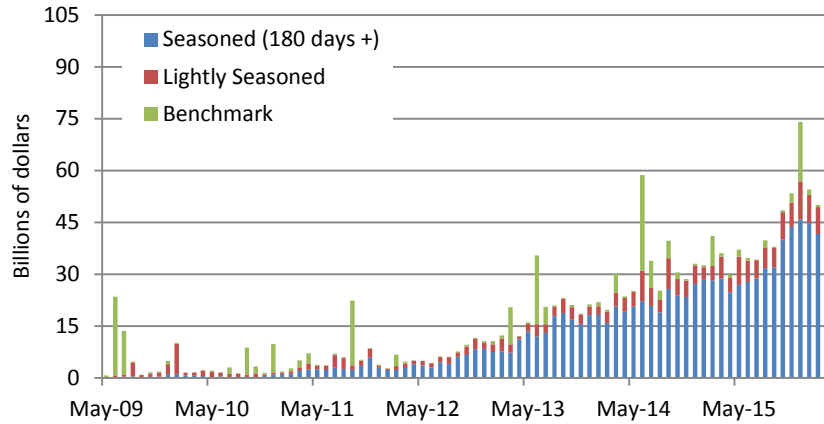
observed that the surge in fails in the first half of March was largely attributable to fails in benchmark issues, specifically the ten-year note and the thirty-year bond. It was noted that this trend was similar to prior episodes of benchmark fails in that there was a limited supply of lendable securities relative to the demand to borrow.

The Group also discussed the continuing rise in fails of seasoned securities (i.e., securities issued more than 180 days prior), the number of daily new issues failing, and a decline in the average number of days that a security fails. Members suggested a range of possible factors that may be contributing to the rise in fails of seasoned securities, including changes to collateral processes associated with tri-party repo reform, fewer securities in circulation, lower dealer inventories of Treasury securities, and the presence of a minimum threshold exemption in the application of the fails charge. The TMPG decided to continue to monitor the trend in settlement fails and Fed staff noted that it planned to conduct additional analysis using fails data provided to the Fed by TMPG members and DTCC.

- Next, the TMPG discussed recent market developments, including reactions to the March [FOMC meeting](#), trends in the demand for Fed’s ON RRP facility, expectations for the future path of domestic policy (including the perceived likelihood of negative rates), and possible market impact of the upcoming U.K. referendum on European Union membership.
- Finally, the TMPG received an update from the working group formed to develop best practice recommendations around information handling. Working group members noted that they have started examining issues around information use and handling that arise in realistic situations (e.g., information obtained when clients place orders or information incorporated in providing market color) in order to inform the development of best practices. Discussion ensued on these topics and feedback was provided to the working group.
- The next TMPG meeting is scheduled to take place on Tuesday, May 24<sup>th</sup>, 2016 from 4:00-6:00 PM.

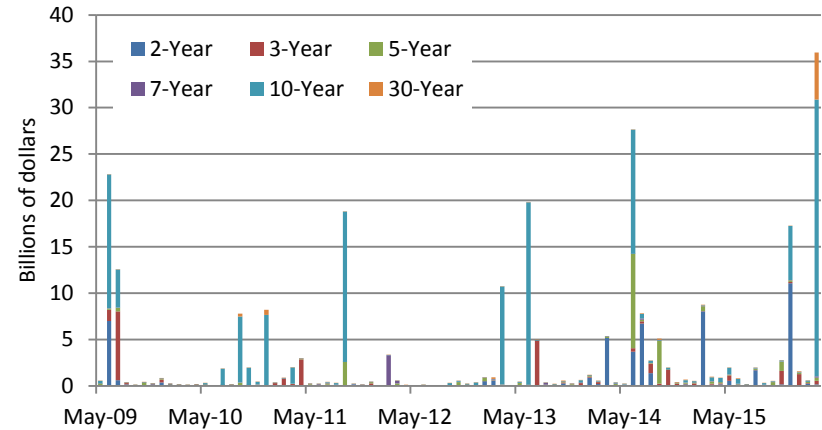
## Treasury Settlement Fails – The Recent Spike in Fails

### Fails Spike to Post-Crisis Highs in March



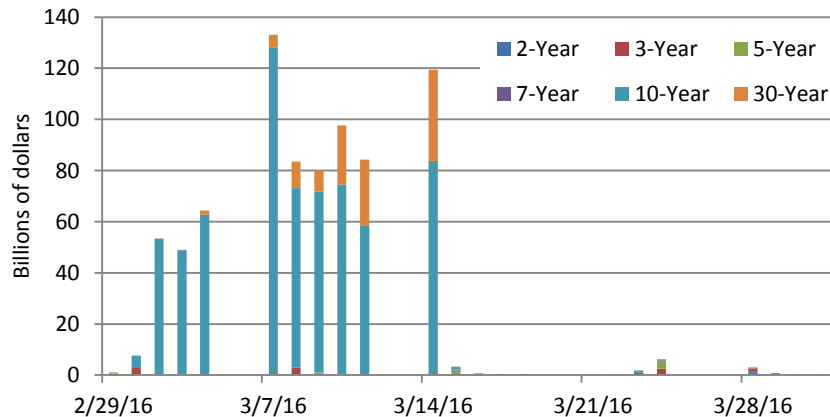
Source: NY Fed, based on data from the Depository Trust and Clearing Corporation.  
 Note: Average daily gross fails by month in the on-the-run notes and bonds, in securities issued more than 180 days prior (seasoned), and in all other securities (lightly seasoned).

### Fails Surge in Benchmark 10- and 30-Year Securities



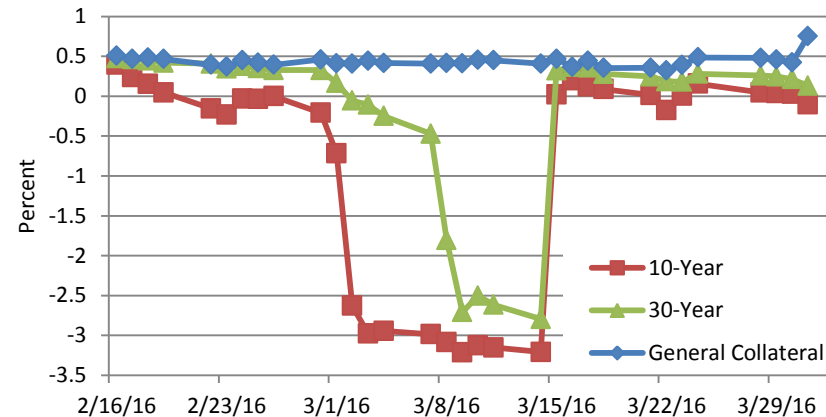
Source: NY Fed, based on data from the Depository Trust and Clearing Corporation.  
 Note: Average cumulative gross fails by month in the on-the-run notes and bonds.

### Daily Fails High Until Reopenings



Source: NY Fed, based on data from the Depository Trust and Clearing Corporation.  
 Notes: Gross fails by day between February 29, 2016 and March 31, 2016 in the on-the-run notes and bonds.

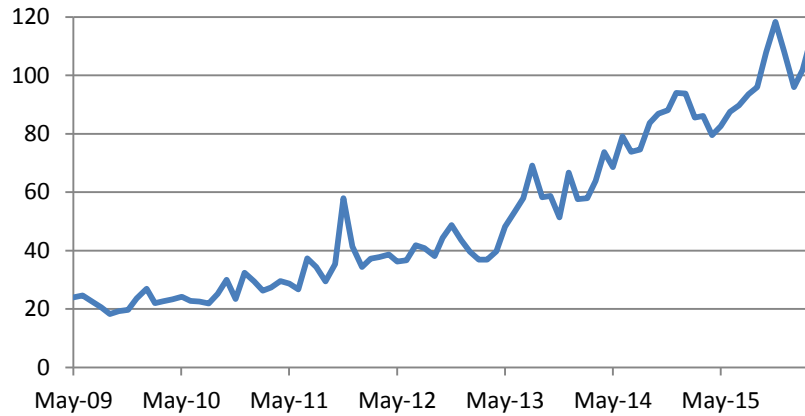
### 10- and 30-Yr Benchmark Repo Rates Near Fails Rate



Source: NY Fed, based on data from the interdealer market.  
 Notes: Average overnight general collateral rate and special collateral repo rates for the benchmark 10-year note and 30-year bond between February 16, 2016 and March 31, 2016 .

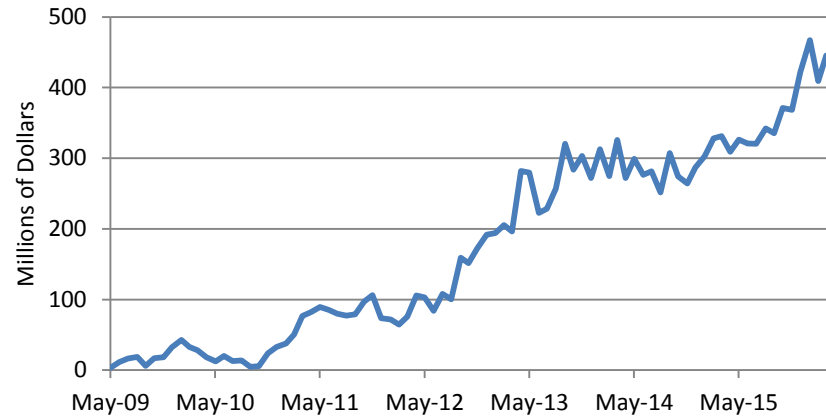
## Treasury Settlement Fails – Rising Seasoned Fails 1

### Number of Issues Failing is Increasing



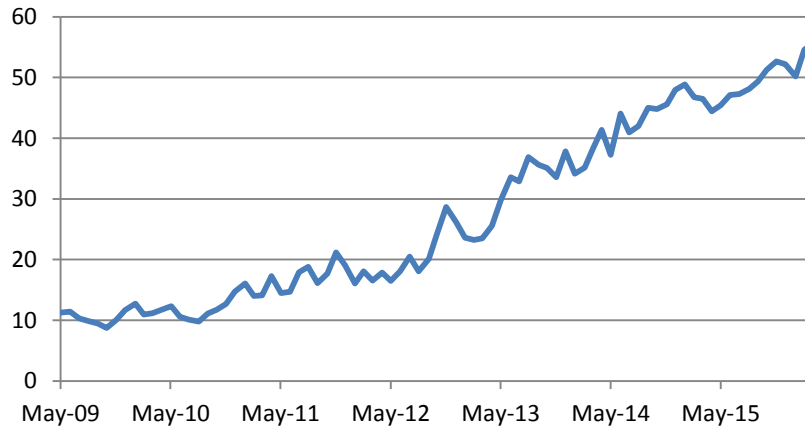
Source: NY Fed, based on data from the Depository Trust and Clearing Corporation.  
 Note: Average daily number of seasoned issues (securities issued more than 180 days prior) failing by month.

### Quantity Failing per Issue is Increasing



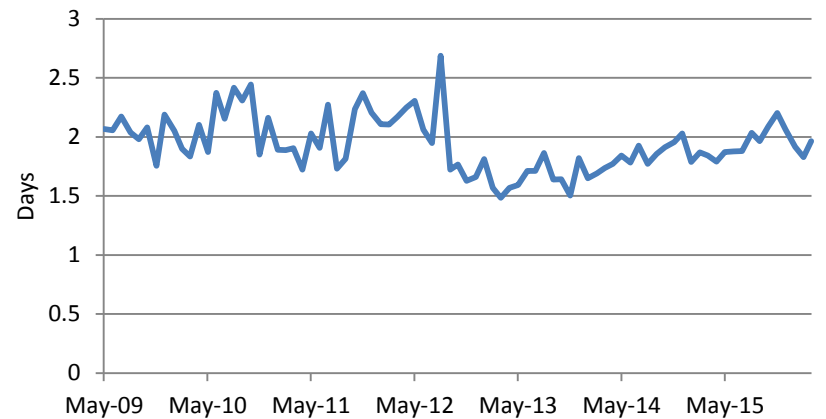
Source: NY Fed, based on data from the Depository Trust and Clearing Corporation.  
 Note: Average daily per-security gross fails by month for seasoned issues (securities issued more than 180 days prior).

### Number of New Issues Failing per Day is Increasing



Source: NY Fed, based on data from the Depository Trust and Clearing Corporation.  
 Note: Average daily number of new fails episodes by month for seasoned issues (securities issued more than 180 days prior).

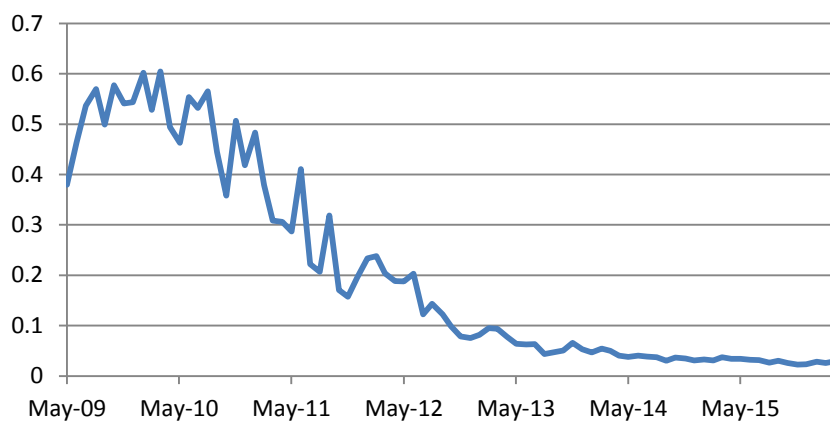
### Average Fails Episode Length Has Declined



Source: NY Fed, based on data from the Depository Trust and Clearing Corporation.  
 Note: Average daily length of new fails episodes by month for seasoned issues (securities issued more than 180 days prior).

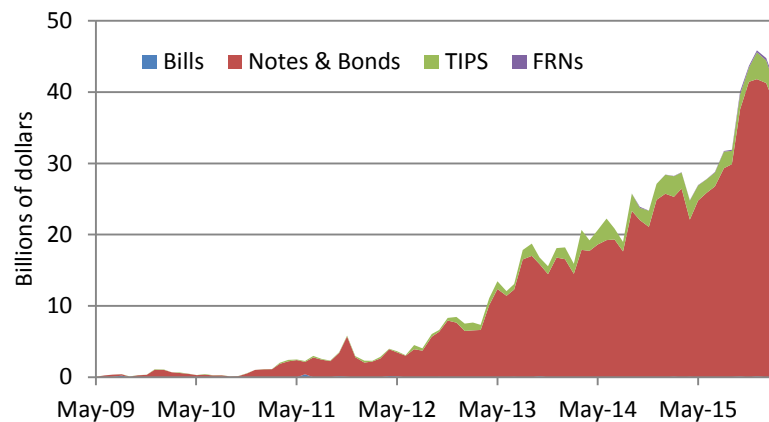
## Treasury Settlement Fails – Rising Seasoned Fails 2

### Concentration of Seasoned Fails is Decreasing



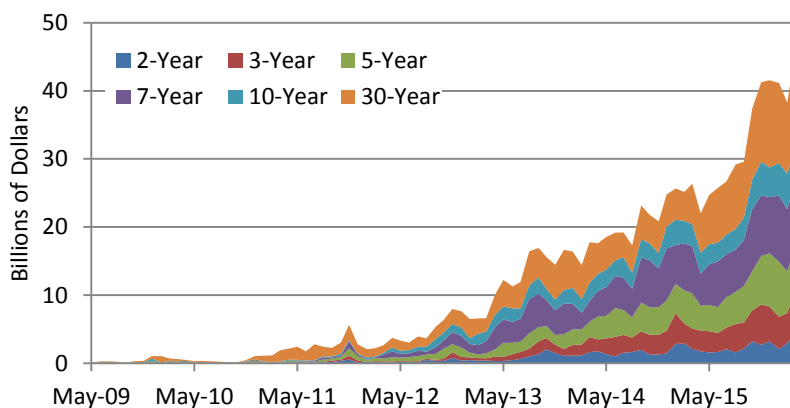
Source: NY Fed, based on data from the Depository Trust and Clearing Corporation.  
 Note: Average daily Herfindahl measure of fails by month for seasoned issues (securities issued more than 180 days prior).

### Seasoned Fails Are Concentrated in Coupons



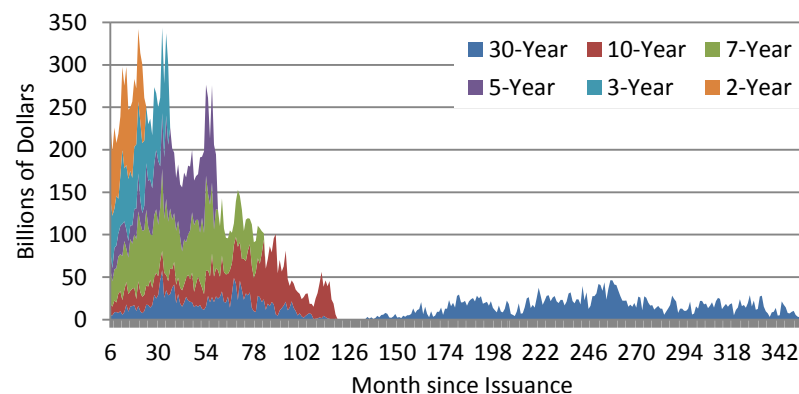
Source: NY Fed, based on data from the Depository Trust and Clearing Corporation.  
 Notes: Average daily gross fails by month and security type for seasoned issues (securities issued more than 180 days prior).

### Fails Are Distributed Across Different Coupon Tenors



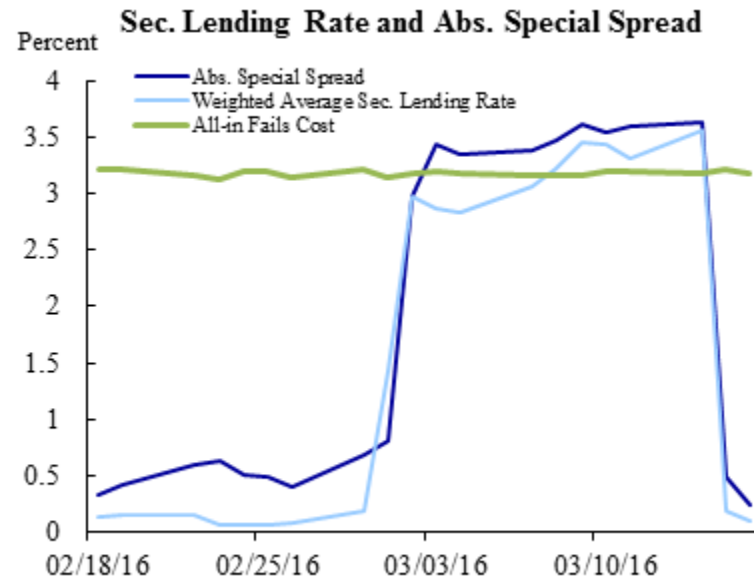
Source: NY Fed, based on data from the Depository Trust and Clearing Corporation.  
 Note: Average daily gross fails by month and original maturity for seasoned notes and bonds (securities issued more than 180 days prior).

### Fails Dist. Over Different Seasonedness Vintages



Source: NY Fed, based on data from the Depository Trust and Clearing Corporation.  
 Notes: Cumulative gross fails by month since issuance and original maturity for notes and bonds issued at least six months prior. The sample period is July 2, 2009, to March 31, 2016.

### Treasury Settlement Fails – Rising Seasoned Fails 3



Source: NY Fed, Brokertec