**TMPG Meeting Minutes**
*September 25, 2013*

TMPG attendees

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| Art Certosimo (BNY Mellon) | 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) |
| Michael Garrett (Wellington) | Gerald Pucci (BlackRock) | |

FRBNY attendees

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| Vic Chakrian | Simon Potter | Joshua Wright |
| Frank Keane | Susmitha Thomas | Nate Wuerffel |
| Lorie Logan | Janine Tramontana | |

- The meeting commenced with a review of potential 2014 TMPG meeting dates.

- The Group then discussed recent market developments, including reactions to the Federal Open Market Committee's (FOMC) actions at its September meeting and related FOMC communications. Members also discussed the potential ramifications of the Fed's fixed-rate, full-allotment overnight reverse repo operational exercise. Finally, members discussed the current state of market function for the Treasury, agency, and agency MBS markets.

- The TMPG's focus then shifted to the Treasury market's operational readiness for the introduction of Floating Rate Notes (FRN) as well as a discussion of the industry's state of readiness related to a potential debt ceiling episode.
    - Members discussed operational readiness for the Treasury's first FRN auction, which is expected to occur in January 2014. From an operational perspective, members noted that in order to trade and settle FRNs, various front and back-end securities systems would likely need to be updated. The Group also discussed potential changes to collateral schedules and haircuts. Members agreed that it would be worthwhile for all Treasury market participants to devote the operational and legal resources necessary to accommodate the new security type in a timely manner.
    - Members also discussed the current industry contingency planning around the debt ceiling episode. Members recalled prior discussions of the Group with respect to the market's operational capacity to process Treasury securities that experience a delayed payment of principal or interest. The Group agreed that prior discussions regarding potential practices to support trading, settlement, and operational processes in the event of a delayed payment on Treasury debt, along with a list of useful operational questions, remained relevant for other industry bodies to contemplate in ongoing contingency efforts. The discussion emphasized these contingency actions, if implemented, would only mitigate, not eliminate, expected operational difficulties in the event of delayed payments on Treasury debt.
    - Members highlighted a number of remaining uncertainties with their contingency preparations, including whether pricing service providers have robust contingency plans in place. Members also highlighted uncertainty of some market participants

about whether Treasury securities with delayed payments would be eligible for the Discount Window and in Open Market Operations. Some also indicated the importance of resolving eligibility practices in a range of collateral market transactions as another important consideration in prudent planning around a debt ceiling episode. Moreover, members expressed concerns that contingency planning was uneven across market participants.
  - Members recognized that efforts by industry trade organizations, to coordinate operational efforts and identify recommended actions, in response to a contingency event were more advanced than in prior years. Some members referenced lessons learned from the response to Superstorm Sandy, and highlighted the need to continue to enhance cross-market contingency response mechanisms, as well as those between the public and private sectors.

- The Group then turned to review the market's progress with implementing its best practice recommendation to margin forward-settling agency MBS transactions:
  - Members discussed feedback from industry trade groups and various market participants, much of which focused on the legal issues and operational costs of implementation, and recognized that these may be particularly burdensome to smaller firms. The Group acknowledged that some market participants may experience an increase in operational and legal resource requirements; however, members agreed that the benefits of widespread margining of agency MBS transactions – including enhancements to counterparty risk management and the reduction of systemic risks – significantly outweigh these costs.
  - Some members noted the challenges for certain types of market participants that need to engage third-party service providers for margining services. Members also noted concerns around reports of terms being negotiated by market participants that, despite meaningful credit exposures, may not result in the regular exchange of two-way variation margin. This was seen as being inconsistent with the best practice recommendation.
  - It was noted that certain common issues have been raised by market participants to the Group, including whether to margin fails, and whether the TMPG can provide guidance on appropriate collateral eligibility types, thresholds and cure periods. Members noted that the TMPG's current recommendation guides market participants to address these issues bilaterally, but agreed to further discuss these and other issues and determine if additional guidance should be provided by the TMPG.
  - Despite the noted challenges, most members reported continued improvement in market implementation over the last several weeks, and all members reaffirmed the recommendation that market participants substantially complete the process to exchange two-way variation margin on forward-settling agency MBS exposures by December 31, 2013.

- The TMPG then reviewed progress towards implementing its practice recommendations designed to support more timely trade confirmation in the tri-party repo market, which were released on May 23:
  - Members reported that trading behavior that has been observed following the release of the TMPG's recommendation reflects improved practices that supported clearing bank end of day settlement, diminished use of intra-day credit, and reduced systemic risk.
  - Members added that, following the August 1 effective date, substantially all tri-party repo trades that were executed before 3:00 pm were matched and confirmed by 3:00 pm.

- Members then briefly reviewed potential future priorities for the Group, previously discussed at the June 27 meeting:
  - Members reaffirmed possible areas of focus that could help to further support the integrity and efficiency of the Treasury, agency debt and agency MBS markets, including the impact of algorithmic and high frequency trading on Treasury markets, initiatives to enhance government securities market data transparency, business resiliency efforts, and ongoing vigilance with respect to identifying gaps in the existing recommended *Best Practices for Treasury, Agency Debt, and Agency Mortgage-Backed Securities Markets*.
  - The Group agreed to continue its consideration of these potential areas of focus at future meetings.

- The next TMPG meeting will take place on Monday, October 21, from 4:00-6:00 PM.