

June 28, 2011

**Treasury Market Practices Group Announces Revised Fails Charge Recommendations  
for Agency Debt and Agency MBS Markets**

The Treasury Market Practices Group (TMPG) today announced revised fails charge recommendations for the agency debt and agency mortgage-backed securities (MBS) markets based on feedback it received on its April 29, 2011, proposal for fails charge recommendations. The TMPG believes that the revised practices announced today will reduce fails and support liquidity in the agency debt and agency MBS markets.

For the agency debt market, the recommended trading practice is unchanged from the proposal that was previously announced. The recommended practice consists of a fails charge equal to the greater of 0 percent and (3 percent minus the federal funds target rate). The charge accrues each calendar day a fail is outstanding, and it is applied with a \$500 minimum claim threshold. This structure is similar to the Treasury market fails charge trading practice currently in place. Debentures issued by Fannie Mae, Freddie Mac and the Federal Home Loan Banks are subject to this charge.

For the agency MBS market, the recommended trading practice has been modified slightly from the earlier proposal. The revised recommended practice consists of a fails charge equal to the greater of 0 percent and (2 percent minus the federal funds target rate). The charge accrues each calendar day a fail is outstanding, although an agency MBS fail is not subject to a charge if delivery occurs on either of the two business days following contractual settlement date (referred to as the resolution period). Charges for fails settled in a given calendar month are aggregated between legal entities that are counterparties to one another in a transaction, and a claim is made if aggregate charges for the month exceed \$500.<sup>1</sup> Agency MBS issued or guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae are subject to this charge.

“The TMPG’s goal is the practical elimination of fails,” said Tom Wipf, TMPG chair. “The TMPG expects that the recommended trading practice for the agency MBS market will effectively reduce fails and support liquidity in the market. If fail levels do not decline satisfactorily within the first few months after the charge takes effect, the TMPG will consider raising the charge level and shortening or eliminating the resolution period.”

The TMPG recommends that the fails charges apply to transactions in agency debentures and agency MBS entered into on or after February 1, 2012, as well as to transactions that were entered into prior to, but remain unsettled as of, February 1, 2012. For transactions entered into prior to, and unsettled as of, February 1, 2012, the TMPG recommends that the fails charge begin accruing on the later of February 1, 2012, or the contractual settlement date.

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<sup>1</sup> For greater detail, see Agency Mortgage-Backed Securities Fails Charge Trading Practice Summary.

The logo for the Treasury Market Practices Group (TMPG) features the acronym 'TMPG' in a large, bold, white serif font on the left. To its right is a vertical bar, followed by the full name 'Treasury Market Practices Group' in a smaller, white serif font. The background is a dark blue image of a financial market data screen with a grid and some numbers like '23' and '30' visible.

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The TMPG plans to publish in short order a formal Agency Debt and Agency Mortgage-Backed Securities Fails Charge Trading Practice document, which will include a suggested form of notice to counterparties and standard confirmation language. The TMPG also plans to publish Frequently Asked Questions about TMPG fails charge recommendations.

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## *About the Treasury Market Practices Group (TMPG)*

The TMPG is a group of market professionals committed to supporting best practices in the Treasury, agency debt and agency mortgage-backed securities (MBS) markets. It is composed of senior business managers and legal and compliance professionals from a variety of institutions, including securities dealers, banks, buy-side firms, market utilities and others, and is sponsored by the Federal Reserve Bank of New York.

For more information on:

Treasury Market Practices Group, visit [www.newyorkfed.org/tmpg](http://www.newyorkfed.org/tmpg)

“Agency Debt Securities Fails Charge Trading Practice Summary,” see [www.newyorkfed.org/tmpg/agencydebt\\_06282011.pdf](http://www.newyorkfed.org/tmpg/agencydebt_06282011.pdf)

“Agency Mortgage-Backed Securities Fails Charge Trading Practice Summary,” see [www.newyorkfed.org/tmpg/agencymbs\\_06282011.pdf](http://www.newyorkfed.org/tmpg/agencymbs_06282011.pdf)

“TMPG Proposes Fails Charge Recommendations for Agency Debt and Agency Mortgage-Backed Securities Markets and Seeks Public Comments,” see [www.newyorkfed.org/tmpg/agencydebt\\_mbs\\_04292011.pdf](http://www.newyorkfed.org/tmpg/agencydebt_mbs_04292011.pdf)

“Understanding Settlement Fails in Agency Mortgage-Backed Securities” (TMPG White Paper), see [www.newyorkfed.org/tmpg/tmpg\\_04292011.pdf](http://www.newyorkfed.org/tmpg/tmpg_04292011.pdf)

“Best Practices for Treasury, Agency Debt, and Agency Mortgage-Backed Securities Markets,” see [www.newyorkfed.org/tmpg/bestpractice\\_09142010.pdf](http://www.newyorkfed.org/tmpg/bestpractice_09142010.pdf)

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