

## TMPG Meeting Minutes

November 1, 2012

### TMPG attendees

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

### FRBNY attendees

David Finkelstein	Simon Potter	Nate Wuerffel
Peggy Kauh	Janine Tramontana*	
Frank Keane	Josh Wright*	

*\*Participated in the meeting by phone.*

- The meeting commenced with a discussion of recent market developments, including the reaction of financial markets to the FOMC’s policy statement from the October 23-24 meeting, and trading conditions in the agency mortgage-backed security market.
- The Group also discussed liquidity and market functioning, operation, and communication issues in light of the disruptions caused by Hurricane Sandy:
  - The Group generally agreed that the Treasury, agency debt and agency MBS markets functioned well throughout the event, aided by the contingency measures adopted by market participants. Members offered a number of areas where contingency planning could be enhanced in the future. Specifically, the Group observed that some backup sites were not located sufficiently far from primary sites to avoid the impact of the storm. Additionally, members noted that there exists a general overreliance on direct phone lines and many market participants did not have contact phone numbers available for trading counterparts.
  - Members also believed there was some room for improvement regarding communications about market openings, closings, and related trading conventions. The Group concluded that overall market functioning would benefit from closer coordination between various market entities in future contingency situations.
  - Recognizing the benefit of learning as much as possible from recent experiences, the members agreed to discuss this topic further at a future meeting.
- The Group then turned to continue its discussion of the moderate increase observed in the level of agency MBS settlement fails since the summer:
  - Members noted that while the level of settlement fails remains modestly higher than levels observed around the implementation of the fails charge in early February 2012, the level of fails has declined since the summer and continues to be quite low relative to prior years.
  - The Group reiterated that the goal of the fails charge is to support liquidity and smooth functioning of the agency MBS market by reducing settlement fails. Within this context, members discussed the impact that either an increase in the recommended fails charge rate or a shortening of the recommended two-day

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- resolution period might have on agency MBS market trading conditions and back-office operations.
- Members confirmed that any future adjustments to the recommended fails charge trading practice should avoid unnecessary market disruption, and the Group agreed to continue closely monitoring agency MBS settlement fails activity and discussing the impact and effectiveness of the agency MBS fails charge trading practice.
- The working group formed to study the operational, legal, and financial implications of margining forward-settling agency MBS transactions then reviewed the effort to develop a recommended best practice for margining in agency MBS trading:
  - Another draft of the potential best practice recommendation was presented to the members for review.
  - Additionally, an update was provided on SIFMA's progress towards revising the current form of SIFMA's *Master Securities Forward Transaction Agreement*. The Group agreed to continue working closely with SIFMA to produce in a timely manner a more broadly acceptable master agreement, consistent with and supportive of the TMPG's enhanced practice recommendation that forward-settling agency MBS transactions be margined by both parties to mitigate counterparty and systemic risk.
  - Members also reviewed several proposals for the recommended effective date for implementing a margining practice into agency MBS trading activity, taking into consideration the time required by various market participants to develop the necessary written agreements, the effort required to implement margining of derivative transactions, and the operational infrastructure needed for broader adoption of two-way margining.
  - The Group agreed to finalize the details of the recommended margining best practice before its next scheduled meeting by a brief teleconference call.
- The Group then discussed factors inhibiting more timely three-way trade confirmation for tri-party repo:
  - Members focused on the two chief factors that seem to most impede broader timely matching of tri-party repo trades, namely late-day submissions of block trade allocations and late-day trading activity, and reviewed potential reasons for the late-day trade allocations and transactions.
  - The Group agreed to continue its discussion of frictions impeding earlier trade matching in tri-party repo and to consider whether there are any practical solutions that could be promoted for addressing this issue.
- The next TMPG meeting will take place on **Wednesday, November 28, 4:00–6:00 PM**.