

## **TMPG Meeting Minutes**

*June 28, 2016*

### TMPG attendees

Zahir Antia (Bank of Canada)	Beth Hammack (Goldman Sachs)	Murray Pozmanter (DTCC)
Julia Coronado (Graham Capital)	James Hraska (Barclays)	James Slater (BNY Mellon)
Dan Dufresne (Citadel)	Gary Kain (American Capital Agency)	Stuart Wexler (ICAP)
Deirdre Dunn (Citigroup)	Edward McLaren (Bank of America)	Thomas Wipf (Morgan Stanley)
Michael Garrett (Wellington)	Steven Meier (State Street Global Advisors)	

### FRBNY attendees

Nashrah Ahmed	Frank Keane	Brett Rose
Michelle Ezer	Michael McMorrow	Janine Tramontana
Josh Frost	Radhika Mithal	Nate Wuerffel

### FINRA attendees

Patrick Geraghty	Ola Persson
Steve Joachim	Robert Mendelson

- The meeting commenced with a welcome to new members Edward McLaren from Bank of America and Kourtney Ratliff from Loop Capital Markets followed by thanking departing members James DeMare from Bank of America and Zahir Antia from Bank of Canada for their participation on the TMPG.
- Members received an update from representatives of the Financial Industry Regulatory Authority (FINRA) regarding possible collection of Treasury securities transaction data from its members. FINRA noted its work to date is focused on data collection, with decisions about data transparency subject to future consideration and discussion. FINRA staff stated that it is currently working with the U.S. Department of Treasury, the Federal Reserve, industry groups and market participants to help inform a proposal for data collection. FINRA staff informed the TMPG that it expects to leverage the existing Trade Reporting and Compliance Engine<sup>1</sup> (TRACE) infrastructure and fields for collecting the data to minimize the reporting burden on market participants and noted the following:
  - As a first step, transaction reporting via TRACE would be expected by end-of-day instead of within 15 minutes as required for other fixed income securities.
  - Only FINRA members would be subject to reporting. Transactions by non-FINRA member firms will only be captured when such firms transact with FINRA members, which is the case for all interdealer platform trades.

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<sup>1</sup> The [Trade Reporting and Compliance Engine](#) is the FINRA developed vehicle that facilitates the mandatory reporting, within 15 minutes, of over the counter secondary market transactions in eligible fixed income securities.

- Reporting will likely be limited to secondary market purchases and sales of Treasury securities. Financing transactions such as repurchase agreements and auction activity will likely be excluded.
- Reporting is expected to cover U.S. Treasury bills, notes, bonds, STRIPS and TIPS.

TMPG members commended FINRA on its efforts to improve the official sector's access to Treasury market data. TMPG members were invited to provide feedback on the data collection initiative as FINRA moves forward with developing the formal rule proposal.<sup>2</sup>

FINRA staff also provided an update on the [SEC's approval of the amendment to FINRA Rule 4210](#) (Margin Requirements) establishing margin requirements for transactions in the To Be Announced (TBA) market. Members were informed that the bulk of the rule changes become effective on December 15, 2017, but that the risk limit determination requirements become effective on December 15, 2016. FINRA staff noted certain differences from the TMPG's best practice recommendations for [Margining of Agency MBS Transactions](#), including the one-way margin collection requirements under the FINRA.<sup>3</sup> FINRA staff pointed out that while two-way exchange of margin is not presently mandated by Rule 4210, two-way margin exchange is permissible under the rule. FINRA has expressed to SEC its support for two-way margining regimes in concept and staff indicated that FINRA will reexamine the issue when the SEC completes its rulemaking for margin requirements for security-based swaps. Following this discussion, FINRA representatives left the meeting.

TMPG members discussed the FINRA Rule amendment and agreed to issue a statement of support and include a reminder that the TMPG believes that all market participants should continue to adhere to the TMPG best practice of two-way exchange of margin which is designed to mitigate counterparty exposures and systemic risk.<sup>4</sup>

- Next, the TMPG reviewed possible options to curb the recent rise in settlement fails, including the rise in fails in small-sized trades. Some data indicated that certain small-sized trades may be ineligible for a fails charge claim as they fall under the minimum threshold. As such, members agreed to modify the TMPG's recommended fails charge trading practice for U.S. Treasury and agency debt securities by narrowing the threshold exemption applied to fail charge claims in these markets. Instead of the current practice of applying the exemption on a per trade basis, members agreed to recommend applying the \$500 exemption to aggregate fails charges between two counterparties for a given calendar month. Members agreed that the revised

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<sup>2</sup> On July 18, 2016 FINRA filed with the SEC a proposed rule change relating to reporting of U.S. Treasury securities to TRACE, available [here](#).

<sup>3</sup> TMPG recommends that all market participants exchange two-way margin for forward settling MBS transactions to Mitigate counterparty exposures and also recommends broader product coverage, recommending that the best practice be applicable to multifamily housing and project loan program securities.

<sup>4</sup> On July 13, 2016 the TMPG [published](#) a press release welcoming FINRA's amendment to Rule 4210.

practice will apply to transactions entered into on or after September 1, 2016 to provide market participants sufficient time to make any necessary operational adjustments. There was consensus to continue monitoring settlement fails and, if necessary, consider further actions, including changing the fails charge rate. Members decided to publish a press statement announcing the change as soon as practicable and release updated versions of the *U.S. Treasury Securities Fails Charge Trading Practice*, *Agency Debt and Agency MBS Fails Charge Trading Practice* and the *Frequently Asked Questions* soon thereafter.<sup>5</sup>

- Then, the TMPG working group on information handling provided an update on its progress. It was noted that the working group had begun an exercise to compare its initial set of draft principles against the [FX Global Code](#) guidance on information sharing and execution. The working group sought TMPG’s input on whether the scope of work should be limited to developing guidance on information sharing or whether it should also cover how information is used for different purposes such as execution or hedging activities. TMPG members agreed that developing high-level, principles-based guidance on both sharing and use of information would be beneficial.

The TMPG also discussed engaging external antitrust counsel to assist in its information handling workstream and agreed that a legal subgroup would be convened to consider the role of such a counsel and to develop a recommendation for the TMPG’s consideration.

- Finally, the TMPG briefly discussed recent market developments, including the market reaction to the U.K. referendum to exit the European Union. Members generally characterized markets as relatively resilient, largely attributed to sufficient precaution and preparation prior to the event and noted money market functioning to be orderly in spite of the approaching quarter-end. Some members highlighted relatively tight liquidity conditions, specifically in FX markets following the event and expect markets to remain volatile in the face of heightened global political uncertainty.
- The next TMPG meeting is scheduled to take place on Tuesday, September 27<sup>th</sup>, 2016 from 4:00-6:00 PM.

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<sup>5</sup> On June 29, 2016, the TMPG [published](#) a press release announcing the modification to its recommended fails charge trading practice for U.S. Treasury and agency debt securities. The modified [U.S. Treasury Securities Fails Charge Trading Practice](#), [Agency Debt and Agency MBS Fails Charge Trading Practice](#), as well as an updated [Frequently Asked Questions](#) were published on July 13, 2016.