

March 1, 2013

### **TMPG Revises Agency MBS Fails Charge Trading Practice**

The Treasury Market Practices Group (TMPG) today announced a modification to the agency mortgage-backed securities (MBS) fails charge trading practice. The TMPG is removing the two-day resolution period from the practice recommendation. Consequently, an agency MBS settlement fail will be subject to a charge for each calendar day the fail is outstanding, even if the delivery occurs on either of the first two business days following the contractual settlement date.

The TMPG recommends that the revised agency MBS trading practice apply to transactions in agency MBS entered into on or after July 1, 2013, as well as to transactions that were entered into prior to, but remain unsettled as of, July 1, 2013. This implementation timeline should provide sufficient time for market participants to make related operational adjustments, and minimize the impact on outstanding trades.

The TMPG is making this change because the resolution period – which was introduced as an operational accommodation when the practice was first introduced – is no longer necessary given that most market participants have been able to manage the fails claim process effectively. The TMPG is also making this change to eliminate incentives market participants may have to intentionally fail to deliver securities in order to “sort the box” during the resolution period, a practice inconsistent with the TMPG [Best Practices for the Treasury, Agency Debt, and Agency MBS Markets](#). The TMPG believes that the revised fails charge trading practice and the other TMPG best practices, including managing large positions with care, will help to further reduce settlement fails and support the liquidity and smooth functioning of the agency MBS market.

All other elements of the agency MBS fails charge trading practice remain unchanged at this time, including the agency MBS fails charge rate.<sup>1</sup> The TMPG will continue to closely monitor agency MBS settlement fails and may consider adjusting the recommended fails charge rate or taking other actions in the future if necessary.

The TMPG plans to release in short order a modified *Agency Debt and Agency Mortgage-Backed Securities Fails Charge Trading Practice*, as well as updated *Frequently Asked Questions* about the 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 the integrity and efficiency of the Treasury, agency debt and agency mortgage-backed securities (MBS) markets. The TMPG 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. More information is available at: [www.newyorkfed.org/tmpg](http://www.newyorkfed.org/tmpg)

#### Contact for Mr. Thomas Wipf (TMPG Chair):

Mr. Mark Lake

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<sup>1</sup> The agency MBS fails charge rate is equal to the greater of (a) 2 percent per annum minus the TMPG reference rate at 5:00 p.m. EST on the preceding business day, and (b) zero.



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