TMPG | Treasury Market Practices Group

Synopsis of TMPG Recommendations (2007-2017)

The list below provides a brief description of the main practice recommendations and initiatives undertaken by the TMPG over the course of its first decade.

1. *Publication of Treasury Market Best Practices (2007).* The first practice guidance, organized around four themes: (1) promoting market liquidity, (2) maintaining a robust control environment (3) managing large positions, and (4) promoting efficient clearing.

2. *Adoption of a Treasury fails charge (2008-09).* A recommendation to revise settlement conventions to provide market participants with a meaningful economic incentive to settle trades quickly even when overnight rates are near zero. This guidance represented an important widening of TMPG focus from behavioral norms to market architecture. (A history of the fails charge is available here.)

3. *Modification of securities Fedwire closing time practices (2009).* TMPG and the Securities Industry and Financial Markets Association (SIFMA) recognized that the existing market standard that allowed dealers more time than non-dealers to deliver securities was outdated and that allowing non-dealer participants who traded actively to deliver securities right up to the close of Fedwire would maximize overall market settlements.

4. *Publication of Best Practices for Agency Debt Securities and Agency MBS (2010).* Following the expansion of monetary policy purchase operations into agency debt

securities and agency MBS the TMPG expanded its aegis, noting that "the Treasury, agency debt, and agency MBS markets are all liquid products that are transferred over the Fedwire system and that may be used in open market operations by the Federal Reserve Bank of New York."

5. *Support for greater repo market transparency (2010).* TMPG identified a need for greater visibility of overnight general collateral repo rates. The Depository Trust & Clearing Corporation (DTCC) responded by initiating publication of GCF Repo® rates.

6. *Adoption of fails charges for agency debt securities and agency MBS (2011).* After careful consideration of market feedback the TMPG expanded its fails charge practice recommendation to cover agency debt securities and agency MBS. The fails charge for agency debt closely mirrored the Treasury fails charge practice. The fails charge for agency MBS had a few alterations in light of the market's unique settlement conventions, including delays of from one to three months between trade negotiation and trade settlement.

7. *Margining forward MBS transactions (2012-13).* The TMPG was uncomfortable with the aggregate credit exposures inherent in the forward settling nature of agency MBS trading and proposed two-way margining as a best practice. In 2016, TMPG welcomed the proposal of the Financial Industry Regulatory Association (FINRA) for mandatory margining of MSB transactions undertaken by FINRA members.

8. *Support for timely reporting of tri-party repo transactions (2013).* The Task Force on Tri-Party Repo Infrastructure requested (and received) TMPG support for more timely reporting of repo transactions.

9. *Delayed payment contingency planning (2013).* The TMPG white paper *"Operational Plans for Various Contingencies for Treasury Debt Payments"* examined alternative approaches to maintaining the transferability of Treasury securities under a range of contingency scenarios that might follow from non-payment of Treasury debt. This work, which hopefully will never have to be pulled off the shelf, is intended to minimize the damage associated with a Treasury security becoming frozen and non-transferrable.

10. *Automated trading practice guidance (2015).* In light of increased automated trading in the secondary Treasury market, the TMPG published a white paper, "Automated Trading in Treasury Markets," and updated its best practice guidance.

11. *Financial benchmark work (2016).* The TMPG undertook three case studies of reference rates used in interest rate markets and uncovered widespread use of a benchmark rate that was not compliant with IOSCO guidance developed in response to the LIBOR scandal. Following publication of the case studies the TMPG worked with representatives from the Risk Management Association (RMA) and SIFMA to find a suitable replacement. The RMA and SIFMA recommended that the Overnight Bank Funding Rate replace the Fed funds open rate as a reference rate, and the TMPG endorsed that recommendation.

12. *More explicit recording of collateral on tri-party repo transactions (2017)*. In order to enhance the completeness and accuracy of a new Federal Reserve statistical report (FR2420), the TMPG recommended that participants cease using "any" to describe the collateral on a tri-party repo and instead more clearly define the type of collateral as "Treasury, agency, or agency MBS."

13. *Information handling (2017, ongoing)*. The TMPG has proposed practice recommendations for handling confidential information and is currently seeking feedback from the public. This work was undertaken in the wake of a number of cases of inappropriate and illegal conduct by major financial institutions in recent years involving misuse of confidential information. While there are certainly circumstances where sharing confidential information is appropriate, misuse of confidential information can adversely affect market integrity and may be illegal.

14. *Clearing and Settlement (2017, ongoing).* The structure of the U.S. Treasury market has been under increasing scrutiny since the October 15, 2014, flash rally, when the market experienced high volatility, record trading volume, and a rapid "round trip" in prices without any clear cause. The Joint Staff Report (2015) and the Treasury Department's Request for Information (2016) were undertaken to better understand this unexpected event. The TMPG formed a working group of subject matter experts to study related risks in clearance and settlement. The working group plans to release a white paper for public comment and to consider whether any new TMPG practice recommendations would be appropriate.

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About the Treasury Market Practices Group (TMPG):
The Treasury Market Practices Group (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.