

CSDs: DTC (USA), Federal Reserve (USA)

Date: 21 Jan 2009

SMI Markets: USA

CMIRR Markets: USA

## Introduction of Fail Charges for Treasury Securities

Following an increase in the delivery failures of US Treasury securities, the Treasury Market Practice (TMPG) has issued a Trading Practice which recommends participants to adopt penalties in case a party fails to deliver the securities before the agreed date.

The Federal Reserve Bank of New York (FED) has been involved in the development of the Trading Practice and has advised they will adopt it.

The Fixed Income Clearing Corporation (FICC), which is a fully owned company by the Depository Trust and Clearing Corporation (DTCC) and acts as a Central Counterparty (CCP) for fixed income securities settled through DTCC, is planning to submit a rule finding to the Securities and Exchange Commission (SEC) in order to charge members with similar fines in the event of non-delivery of Treasuries in respect of a transaction settling through FICC.

As part of the implementation of this recommendation, the TMPG has asked the Government Securities Division (GSD) to impose this charge on failed positions with the clearing corporation. The proposed charge will be equal to 3% per annum minus the Target Fed funds rate that is effective at 5.00pm EST on the business day prior to the originally scheduled settlement date and will be capped at 3% per annum. The charge will be applied daily to the net money due on the failed settlement obligation and will be a debit (or a credit for those with fails to receive) on the member's GSD monthly bill.

The Trading Practice is available at: <http://www.newyorkfed.org/tmpg/pr090115.pdf>

## CSD Risk Impact

### DTC (USA)

CSD Rating: AA-

CSD Flash Impact: Positive

Impacted Risk Type: Liquidity Risk

Current Rating = AA+

Flash Impact = Positive

The introduction of fail charges for treasury securities will encourage participants to deliver their securities on time. This should in turn preserve and enhance the efficiency of the marketplace for Treasuries by reducing the incidence of Delivery Failures with a positive impact on settlement liquidity.

### Federal Reserve (USA)

CSD Rating: AA

CSD Flash Impact: Positive

Impacted Risk Type: Liquidity Risk

Current Rating = AA+

Flash Impact = Positive

The introduction of fail charges for treasury securities will encourage participants to deliver their securities on time. This should in turn preserve and enhance the efficiency of the marketplace for Treasuries by reducing the incidence of Delivery Failures with a positive impact on settlement liquidity.

## Market Information Impact

USA

## Infrastructure Risk Ratings Impact

### USA

Market Rating: AA-

Market Flash Impact: Positive

Impacted Risk Type: Liquidity Risk

Current Rating = AA

Flash Impact = Positive

The introduction of fail charges for treasury securities will encourage participants to deliver their securities on time. This should in turn preserve and enhance the efficiency of the marketplace for Treasuries by reducing the incidence of Delivery Failures with a positive impact on settlement liquidity.

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### For further information contact:

Ana Giraldo - Americas and Eurasia

Peter Katz - Asia Pacific

Jim Micklethwaite - Western Europe (incl. EU)

Barry Morales - Africa, Middle East

Tel: (+44) 20 7830 8300 | Fax: (+44) 20 7287 1549

Email: [cmiqueries@thomasmurray.com](mailto:cmiqueries@thomasmurray.com)

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