



## **Recommended Closing Time Practices for Delivering U.S. Treasury Securities: Frequently Asked Questions**

The following is intended to address questions about the Treasury Market Practice Group's (TMPG) updated closing time practice recommendations for delivering U.S. Treasury securities. Please refer to the document titled "*Recommended Closing Time Practices for Delivering U.S. Treasury Securities*" for additional information.<sup>1</sup>

*April 28, 2009*

### **General**

#### **Why is the TMPG recommending updated closing time practices for delivering U.S. Treasury securities?**

Discussions among TMPG members and other market participants revealed dissatisfaction among some market participants with the existing market convention under which dealers can deliver Treasury securities to customers until 3:15 p.m., but customers can usually only deliver securities to dealers until 3:00 p.m.<sup>2</sup> This convention can sometimes leave a customer who had, at 3:00 p.m., an uncompleted obligation to receive securities and a matching uncompleted obligation to deliver the same securities in the position of taking in the securities after 3:00 p.m. without being able to turn the securities around and redeliver them on the same day. Instead of a pair of matched fails, the customer is left with an unmatched fail to deliver, resulting in higher interest expenses and/or an overdraft charge. This practice is intended to address this asymmetry by treating participants uniformly.

#### **When does the TMPG recommend that the updated closing time practices go into effect?**

The TMPG recommends that market participants adopt the updated closing time practices by June 1, 2009. Market participants are invited to submit any comments or feedback on these updated closing time practice recommendations by May 15, 2009. Comments may be submitted via e-mail to: [tmpg@ny.frb.org](mailto:tmpg@ny.frb.org).

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<sup>1</sup> The document titled "*Recommended Closing Time Practices for Delivering U.S. Treasury Securities*" is available on the TMPG's website: [www.newyorkfed.org/tmpg](http://www.newyorkfed.org/tmpg)

<sup>2</sup> Some dealers make exceptions in some cases and allow some customers on some occasions to deliver securities between 3:00 and 3:15 p.m.

**How should market participants go about electing Option A or Option B as described in the recommended closing time practice guidance?**

Market participants should inform their counterparties of their elected closing time option for originating and receiving Treasury securities. In addition, market participants should consider if there is any need to communicate their elected closing time options to their custodians or clearing bank.

**Can a market participant change its initial elected option (i.e. can a participant who elects Option A subsequently elect Option B at a later date, and vice versa)?**

Some participants may choose to change their elected option from time to time, although it is not recommended that such changes take place frequently. It is recommended that participants provide notice of at least 5 business days to counterparties in the event they wish to change their elected closing time option.

**Is there any adjustment to reference times in this practice guidance on days when the Fedwire Securities Service wire close is extended past 3:30 p.m.?**

Yes, both the hard closing time, the fifteen minute *mutually agreed* window and fifteen minute window for reversals are ultimately determined by the actual time the wire closes on a given day. For instance, if the securities wire is extended to a 4:30 p.m. close on a given day, then the Option A “hard close” moves to 4 p.m., the *mutually agreed* window is 4 p.m. to 4:15 p.m., and reversals are from 4:15 p.m. to 4:30 p.m.

**Incorporation of the Fails Charge**

**Why wasn’t the new closing time practice guidance linked to the fails charge practice recommendation and implemented at the same time?**

The delivery time guidance grew out of due diligence processes associated with work related to the implementation of the fails charge. While the delivery time recommendation was not developed in time to be implemented alongside the fails charge, the gap between the implementation of these two new market practices is brief.

Moreover, it is important to recognize that the delivery time practice guidance is broader than the fails charge, and that it will remain relevant in all interest rate environments, not just abnormally low interest rate environments in which the fails charge practice recommendation applies.

**How does the TMPG recommend that the fails charge be incorporated into the new closing time practices?**

The TMPG recommends that market participants abide by the principle that deliveries should be effected by 3:00 p.m. to the extent possible, since deliveries between 3:00 p.m. and 3:15 p.m. can only be made *if mutually agreed upon* by buyers and sellers that have elected Option B, as described in the revised closing practice guidance.<sup>3</sup> As such, if a

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<sup>3</sup> Market participants who elect Option B, as described in the document titled “*Recommended Closing Time Practices for Delivering U.S. Treasury Securities*” may (i) originate deliveries between 3:00 p.m. and 3:15 p.m. upon the *specific, prior approval* of the buyer, and (ii) accept deliveries between 3:00 p.m. and 3:15 p.m. following, in each case, its *specific, prior approval*.

buyer who chooses Option B declines to accept Treasury securities offered by a seller who chooses Option B between 3:00 p.m. and 3:15 p.m. the buyer would be entitled to charge the seller for failing to deliver the securities on that day. The alternative of separately tracking and verifying whether some fails fall outside of the fails charge was deemed overly burdensome from an administrative perspective.

**Until this new market practice of mutually agreed delivery arrangements is implemented how should participants apply the fails charge to settlement fails that result from existing delivery market practice conventions?**

The TMPG recognizes that in the interim period before new delivery time practices are implemented there may be some instances in which a customer receives securities from a dealer between 3:00 p.m. and 3:15 p.m. that it can not then turn around and redeliver. This would leave the customer with an unmatched fail to deliver that cannot be offset against a fail to receive. Based on the TMPG's recommendation, this type of fail to deliver would not be exempt from the fails charge. Although this outcome is not ideal, the interim period before new delivery time practices are implemented will be brief, and the number of trades typically settling after 3 pm is small in aggregate. Finally, any different treatment of the fails charge during the interim period might lead to unneeded confusion in the new practice regime.