

FAILS WORKING GROUP
January 3, 2007

Attendees: Robert Kemp (Chair of Fails Working Group), Morgan Stanley Investment Management; Jon Ambos, Deutsche Asset Management; Kevin Arthur, Omgeo; Mark Bouchea, Omgeo; Sean Brady, General Motors Asset Management; Andrew Clark, Thompson TradeWeb; Erik Digiacomio, WaMu Capital Corporation; Jane Dopf, Deutsche Asset Management; Thomas Eady; Thomson TradeWeb; Edward Freidman, Federal Reserve Bank, Bill Glynn, Merrill Lunch; Jay Haralson, Goldman Sachs; Dave Hosler, Credit Suisse; Jason Jesner, Chair of AMF; Thomas Kopkash, State Street IMS; Christopher Marzullo; Lord Abbett; Theresa Sacca, Lord Abbett; Joe Sarevo, Barclays Capital; Matthew Seedorf, Citigroup; Jeff Snyder, Barclays Capital; Ben Tam, Goldman Sachs; Stephen Yevak, Brown Brothers.

Staff: Chris Killian; Brian MacWilliams; Elisa Nuottajarvi, George Reis, Joseph Sack, Douglas Taggart

Meeting Notes

- Robert Kemp and Jon Ambos developed a draft standardized fail report that included 36 unique fields. At the meeting, the Working Group reviewed the draft fail report, which will be updated and circulated for review prior to the next meeting.
- The Working Group discussed whether the fail report should be written from the buyer's perspective or the seller's perspective. Approximately two-thirds of fail reports are written from the buyer's perspective. Should the report be a static report or a dynamic report. It was agreed that the Working Group would first develop the format and then decide on the technical aspects of that format.
- The question was raised: "When is a fail considered a fail?" The Working Group agreed that a trade is considered a fail on settlement date, not delivery date.
- The Working Group discussed whether additional fields should be added including:
 - A separate field for settlement date
 - A field about whether the trade is affirmed. (It was stated that there are different reports for affirmed trades that fail vs. non-affirmed trades that fail).
 - A field with mark-to-market information. (It was stated that including price may add complexity to a standardized fail report).
 - A field which identifies the custodian.
 - A field for the broker ID
 - A field for the asset manager ID
 - AccountNet field
 - Alert field
 - A "ticker" could be used as a security ID for equities
 - Euroclear fields
 - PSET Field

- A field for an ABA number
- A field for a DTCC account number
- Settlement fields should include “local price” and “local currency”.
- A standardized fail report may also need to include disclaimers. For example, if a trade is not listed on a fail report, it may not necessarily mean that a fail did not happen.
- The question was raised “Does there need to be additional fields added to incorporate repo fails and reverse trades?”
- It was suggested that the first 15 fields of a standardized trade report should be trade-specific fields because these are the fields that would also be imported into internal fail management systems. The order of the report is important to its users.
- SWIFT was recognized as the standard communication method for transmitting fail information. SWIFT tags should be used where practical (e.g. BIC codes, etc.).
- Wires and SPOs would be addressed separately.
- There was discussion about whether pair-offs should only be done on the same settlement date, and how would partial settlements be reflected on a fails report.
- It was recommended that the fields on the standardized report should be identified either as “essential fields” or “nonessential fields”.
- Possible challenge: in analyzing the fail report, it may be necessary to reference back to the block level trade, however, custodians do not know the block level, only the allocation.
- A standardized fail report would be generated on settlement +1 and it should also include contact information with persons with responsibility of fail management (perhaps also trader/salesperson).
- Tom Garley discussed some of the STP restructuring at TradeWeb which would allow trades to come from the client, and then the trades would be enriched with AccountNet details. This would be open to all asset classes. TradeWeb is also integrating with Omgeo’s trade match system.
- The Working Group agreed to develop a diagram of current and proposed industry workflows. Jon Ambos will share some current diagrams with the Working Group.
- In terms of fail metrics, the top reasons for fails are:
 - Inaccurate settlement instructions
 - Broker-short / Securities Lending
 - Affirmation process and posting of broker information (particularly on equity side)
 - Security was not known on Bloomberg because it was a new security and CUSIP was not in database.

The Working Group also agreed that other groups within SIFMA should vet the draft document and that as the initiative progresses, the Group will discuss how to best promote its work.

The next AMF Fails Working Group meeting is scheduled for Wednesday, February 7, 2007