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Explaining Settlement Fails

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Abstract

The Federal Reserve now makes available current and historical data on trades in U.S. Treasury and other securities that fail to settle as scheduled. An analysis of the data reveals substantial variation in the frequency of fails over the 1990-2004 period. It also suggests that surges in fails sometimes result from operational disruptions, but often reflect market participants' insufficient incentive to avoid failing.

Keywords: settlement fails, securities lending, repurchase agreements, Treasury securities

JEL Classification: G18, G28

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3. Delivery obligations are netted among members of the Fixed Income Clearing Corporation (FICC), mitigating the occurrence of daisy chains and round robins. FICC is a subsidiary of the Depository Trust and Clearing Corporation and is the central clearing agency in the Treasury securities market Posted: 2002

4. If securities are not delivered on the agreed upon settlement date, there is a fail. Regardless of the date the securities were actually delivered, the buyer of the securities pays the seller the original settlement date figures

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