

MEMO# 24020

December 22, 2009

Task Force on Tri-Party Repo Infrastructure Issues Progress Report

[24020]

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TO: MONEY MARKET FUNDS ADVISORY COMMITTEE No. 58-09
MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 67-09
SEC RULES MEMBERS No. 141-09 RE: TASK FORCE ON TRI-PARTY REPO INFRASTRUCTURE
ISSUES PROGRESS REPORT

The Payments Risk Committee (“PRC”) today announced the publication of a progress report (“Report”) on the work of the Task Force on Tri-Party Repo Infrastructure (“Task Force”). [\[1\]](#) ICI is a member of the Task Force, which was formed in September 2009 under the auspices of the PRC, a private sector body sponsored by the Federal Reserve Bank of New York. [\[2\]](#)

According to the Report, the Task Force’s objective is to develop a set of recommendations for improving and mitigating risks related to tri-party repo transactions. The Report’s primary areas of focus include clearance and settlement arrangements, credit and liquidity risk management practices and tools, and arrangements for facilitating the orderly disposition of collateral in stress scenarios. Through its recommendations, the Task Force seeks solutions intended to assure the Federal Reserve and other key stakeholders that tri-party repo arrangements will not amplify systemic credit and liquidity risks during potential future market disruptions.

The Report first provides background information about the U.S. tri-party repo market and notes that tri-party repo arrangements were at the center of the liquidity pressures faced by securities firms at the height of the financial crisis. The Report then identifies several

important lessons that emerged during the crisis with regard to secured funding generally and weaknesses of the tri-party infrastructure specifically. The Report includes a wide range of potential improvements and policy recommendations. Specifically, the Report details a number of draft recommendations including those relating to implementing multiple operational improvements, strengthening collateral margining practices, enhancing liquidity risk management practices, identifying sound practices for contingency planning by tri-party repo cash investors for a possible dealer default, and improving the transparency of the tri-party repo market. The Report also includes concepts for further review intended to improve the market's ability to deal with the default of one or more tri-party repo borrowers.

The Task Force intends to continue developing its recommendations and also will sponsor a broader forum in early 2010 to reach out to representatives of firms not represented directly on the Task Force and provide a basis for wider industry discussion. The Task Force expects to complete its work during the first quarter of 2010. The Federal Reserve has indicated that it plans to incorporate the Task Force's report and recommendations into a white paper that it will issue for public comment to enable all interested stakeholders to review and comment on the work.

Jane G. Heinrichs
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endnotes

[1] The Report is available on the PRC's website at <http://www.newyorkfed.org/prc/>.

[2] Members of the Task Force include representatives from the two tri-party clearing banks (Bank of New York Mellon and JPMorgan Chase), collateral providers including banks and securities dealers (including the broker-dealer affiliates of global banking firms), cash investors that are counterparties to collateral providers (including custodians/asset managers, hedge funds, and money market mutual funds), DTCC, and industry associations (SIFMA, ICI, MFA). Federal Reserve and SEC staff participate in meetings of the Task Force as observers and technical advisors.