FREQUENTLY ASKED QUESTIONS

The Tri-Party Repo Market Infrastructure Task Force

1. **Why was the tri-party repo market infrastructure task force created?**

   The New York Fed asked the Payments Risk Committee (PRC) to form a task force to address the weaknesses in the infrastructure of the tri-party repo market that became visible over the course of the financial crisis:

   - The market's reliance on large amounts of intraday credit made available to cash borrowers by the clearing banks that provide the operational infrastructure for these transactions
   - The risk management practices of cash lenders and clearing banks were, with the benefit of hindsight, inadequate and prone to pro-cyclical pressures
   - A lack of effective plans by market participants for managing the tri-party collateral of a large securities dealer in default without creating potentially destabilizing effects on the rest of the financial system

2. **How were task force members selected?**

   Task Force members represented the most active cash borrowers, the most active segments of cash lenders in the tri-party repo market, and representatives of both of the tri-party repo clearing banks. Industry groups, including SIFMA, ICI and MFA, were also represented to reach out to their broader membership base.

3. **Did the task force seek input from a broader range of stakeholders on its proposals?**

   Recognizing that it would not be practical for all market participants to contribute directly to the process, the task force took measures to emphasize transparency in its work and to encourage inclusiveness. In December 2009, task force members published an interim report on their work and highlighted draft recommendations. To engage a broader range of market participants in the dialogue, the task force hosted a workshop in February 2010 to present its ideas. Now, the New York Fed is inviting comment on all aspects of the task force proposals, as well as on the policy concerns described in this paper. Representatives from industry groups, including SIFMA, ICI and MFA, conducted outreach to their membership.

4. **Is the task force work related to the Federal Reserve's efforts to put reverse repo arrangements in place as part of its exit strategy?**

   No, the work of the tri-party repo task force is not related to the Federal Reserve's balance sheet or exit strategy.

5. **What was the Federal Reserve's role in the Task Force?**

   The Federal Reserve provided logistical support for task force meetings and input on policy issues, as appropriate.

6. **Why do the findings of the task force matter?**

   The task force proposals are a reflection of the members' commitment to developing solutions to address weaknesses in the infrastructure of the tri-party repo market. The proposals, when implemented, should contribute to reducing the potential for problems at one firm to spill over to others, to clarify the credit and liquidity risks borne by market participants, and to better equip them to manage these risks appropriately.

7. **What are the next steps for tri-party repo market reform?**

   Implementation of task force recommendations will be the key next step. The recommendations are ambitious and will require a focused and sustained effort by market participants and clearing banks to achieve their objectives. It is expected that the heads of the most active firms in the tri-party repo market will make a formal commitment to implement needed enhancements to tri-party repo infrastructure in a timely manner, including those described in the Task Force report. It will also be imperative to monitor the evolution of the tri-party repo and other short-term funding markets. The New York Fed, working closely other regulatory and supervisory authorities, intends to initiate additional actions, as necessary. The feedback received from stakeholders on the New York Fed white paper will help inform this work.

8. **What will the New York Fed do with the public comments it receives?**

   The questions posed in the white paper are designed to encourage meaningful discussion and thoughtful analysis of the issues and to help the New York Fed assess the task force recommendations. Comments received will be made public on the New York Fed's website. Feedback received will help New York Fed staff, and others with regulatory and supervisory responsibilities, to assess the proposals and identify any additional or alternative measures that should be considered.

9. **Why is the New York Fed concerned with comments from the public?**

   Recognizing that it was not practical for all market participants and interested parties to contribute directly to the process, the New York Fed would like to hear back from all stakeholders in the tri-party market. This will help New York Fed staff assess the recommendations and identify any additional or alternative measures that may be required.

The Repo and Tri-party Repo Market

10. **What is a repurchase agreement or "repo"?**

    A repurchase agreement or repo is a sale of a security coupled with an agreement to repurchase the securities at a specified price at a later date. It is similar to a collateralized loan.

11. **Who participates in this market?**

    The three parties in a tri-party repo are the cash lenders, cash borrowers, and the tri-party agent. In the US market:

- **Cash lenders** are primarily mutual funds, custodial banks re-investing cash collateral their custodial clients received as a result of their securities lending activity, and other asset managers
- **Cash borrowers**, typically fixed income securities broker dealers, seek to raise cash and have securities that can be used as collateral. A portion of the borrowing is on behalf of the dealers' prime brokerage clients.
- **The tri-party agent** facilitates transactions by providing operation services, custody of securities, settlement of cash and securities, valuation of collateral, and optimization tools to allocate collateral efficiently. In the U.S. market, government securities clearing banks serve as the tri-party agents, in addition to operational services, the provide large amounts of intraday credit to dealers so they can meet delivery obligations on securities financed in tri-party repo.

12. What is a tri-party repo?

A tri-party repo is a repo transaction where a third party, the tri-party agent, provides operational and other related services to the cash borrower and the cash lender. In the US, the role of the tri-party agent is performed by one of two government securities clearing banks.

13. Why is the tri-party repo market important?

The tri-party repo market is important because it is a key source of funding for large securities dealers. Large securities dealers depend on the tri-party repo market for the bulk of their short-term funding. Cash investors, such as money market mutual funds, rely on the tri-party repo market to be a very safe, liquid short-term investment. A disruption to this market would be disruptive to the broader financial system.

14. Who regulates the repo market?

Market participants are subject to the oversight of various regulators including the Fed, the SEC, OCC, and FDIC, however the tri-party repo market is not regulated.