

Please e-mail all responses by June 16, 2010 to: TPR.Reform@ny.frb.org.

1. Have the sources of systemic risk in the tri-party repo market been identified correctly? What additional vulnerabilities or material risks should be considered in evaluating the need for reforms in this critical market? Major systemic risks have been identified, primarily intra-day liquidity exposure, improving risk management practices and dealing with a large dealer default. In addition key operational improvements have been targeted such as three-way confirmation, notification deadlines, margining practices and improved transparency. While these reforms capture the major systemic risks within the triparty repo-market. There are additional concerns around the following

- Timeline for the operational release of collateral substitution (still 1 yr away)-
- Lack of clarity surrounding dealer unwind and the involvement/responsibilities of regulators. –

2. Are the recommendations proposed by the task force appropriate and adequate to address the policy concerns articulated in this paper?

a) Please comment on specific recommendations that you think are most likely to be effective.

The release of collateral substitution, implementation of a three way confirmation process, and improved margin practices will all provide improved controls over the triparty repo market. The hope is that these improvements will strengthen lenders confidence in triparty repo improving liquidity by moving some lenders away from bilateral repo.

b) Please comment on specific recommendations that you believe will not be effective.

Current recommendations on dealer liquidity risk management show limited coordination with regulatory reform. In addition, there is a lack of clarity on the mechanics of a dealer or clearing bank unwind, specifically regarding the role of the Fed and other participants in financial assistance.

c) Please comment on specific recommendations that you believe may have unintended consequences. Transparency: while providing key triparty statistics that shed light on the repo markets, greater clarity around haircuts could cause margins to rise without taking into account the credit worthiness of respective dealers. This could also cause dealers to have more similar portfolios due to the need for cash providers to diversify balances.

d) Are there additional specific measures within the general approach proposed in the task force report that should be considered? In coordination with the rollout of a three-way confirmation process, all triparty agreements should be re-signed under the new standardization doc, improving both dealer and lender clarity on collateral acceptability

3. Are the task force recommendations, including targets for reduction of intraday credit extension by clearing banks, achievable in the timeframes outlined? What barriers or challenges to implementation do you anticipate? The targets bearing mostly on clearing banks and lenders appear achievable. Concern is that the implementation of the three way confirmation (April 2011) and collateral substitution (June 2011) are still almost a year away. Until their release there will continue to be operational issues within triparty repo. In addition concern that the release if not timed properly throughout the triparty community could cause settlement delays.

4. What business impact do you anticipate from the recommendations? For example, what impact would you expect this series of reforms to have on the structure, volumes, collateral, or other parameters of the tri-party repo market? We would expect these reforms to first affect haircuts of collateral bringing together more uniformity based on collateral type. There is concern that the responsibilities upon lenders will cause them to reduce their triparty exposure primarily within non-traditional product.

5. Considering a dealer default scenario, what additional measures should be considered to

address concerns regarding potential liquidity pressures on cash lenders and surviving dealers, and the potential for fire-sale conditions? [Additional coordination with regulators in regards to Dealer liquidity risk management practices coupled with set mechanics for Dealer unwind in the event of default. Measures will need to account for lenders need for clarity in collateral pricing and the ability to effectively liquidate in the face of cash needs.](#)

6. What measures could be taken to reduce the likelihood of cash lenders running from a troubled dealer? [Providing cash lenders with the ability to quickly liquidate collateral in the event of default would improve their confidence in maintaining repo with a troubled \(or rumored to be troubled\) dealer. One recommendation would be the establishment of a clearing house where lenders would pledge collateral received in triparty from defaulted dealers for cash. This would reduce the potential for a lender fire sale of assets. In addition increased capital and committed facilities within the dealer community in accordance with regulatory reform will hopefully reduce dealer default fears.](#)

a) Are there ways to increase a lender's ability to effectively deal with a scenario in which it must accept collateral in lieu of cash following a dealer default? [Yes, improved third party pricing and the ability to ensure lenders can liquidate collateral quickly. In addition review of all triparty schedules so lenders are fully aware of the collateral they are accepting.](#)

7. What other approaches to assessing and mitigating systemic risk in tri-party repo business arrangements should the Federal Reserve or industry leaders consider? [Coordination with global regulators \(FSA/Basel\) ensuring that mismatch liquidity ratios for broker dealers owned by Foreign subsidiaries face similar guidelines in order to not upset market competition.](#)

a) For example, would implementation of a central counterparty be desirable in this market? If so, what specific features of a central counterparty would be most desirable, and why?

Yes, central pricing source would reduce the need for a fire sale of assets. Concern is around the need for consistent pricing and orderly liquidation of collateral.