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Federal Reserve Bank of New York
33 Liberty Street
New York, New York 10045

Re: **FRBNY White Paper on Tri Party Repo ("TPR") Infrastructure Reform: Questions for Comment**

JPMorgan was honored to participate in the Task Force and to have the opportunity to contribute our unique perspective and expertise. We would like to thank the Federal Reserve Bank of New York ("FRBNY") and the Payments Risk Committee for their leadership throughout the process. We are proud of the collaborative nature in which the recommendations were developed and believe, when implemented, the TPR Market will be more resilient for all participants. We look forward to the next phase of TPR market reform and continued engagement with our market partners and Regulators.

We appreciate the opportunity to provide our perspective on the following questions:

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?

The key sources of systemic risk, more specifically the weaknesses in the current operating model between TPR market participants, have been correctly identified. While more will be done by the Task Force to define further best practices related to the use of leverage, liquidity management, funding concentration, asset / liability matching, etc, it is unclear if liquidity risk mismatches between dealers and lenders can be fully addressed exclusively within the TPR Operating Model.

An additional risk requiring further evaluation is the impact of a major Lender default.

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.
   b) Please comment on specific recommendations that you believe will not be effective.
   c) Please comment on specific recommendations that you believe may have unintended consequences.
   d) Are there additional specific measures within the general approach proposed in the task force report that should be considered?

The recommendations are appropriate and adequate and will have a meaningful impact in reducing and mitigating the risks associated with the TPR market. It is impossible to eliminate fully all risks.

a) Recommendation 1, Operational improvements to 'practically' eliminate the unwind will likely be very effective in reducing the magnitude of daily credit risks assumed by the clearing banks. Specifically, the introduction of 3 way trade confirmation and Auto Substitution will be the most effective means of implementing this recommendation. Additionally, the various recommendations targeting increased transparency will be very beneficial.
b) If executed properly all the recommendations should have a positive effect. However, without consistent, market wide execution, effectiveness may be limited.
c) Recommendation 13, the publication of aggregate statistics on margin levels will improve transparency but if such data is not utilized by lenders as part of establishing a comprehensive risk management program there could be simply a movement to the mean without the benefit of true additional analysis to determine appropriate margin levels by each lender.
d) Aside from continuing discussions on the open items identified in the report regarding mitigation of 'fire sale' conditions and various valuation topics, the risks associated with a lender default should be considered.

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 timelines are achievable but will require consistent communication and collaboration by all parties. JPMorgan looks forward to implementing the Clearing Bank specific milestones ahead of the recommended target dates.

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?

The recommendations, if properly executed, should make the market more stable and therefore more resilient:

- gradual increase in volumes from both existing participants as well as new entrants previously concerned about risks
- volume decreases due to more restrictive collateral schedules
- migration to better quality collateral mix
- better aligned margin levels
- more consistency with non US markets which could provide confidence in and familiarity with an operating model that would attract non-US Cash Lenders to US TPR opportunities

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Please note: Exogenous issues such as the imposition of SIPC and/or FDIC 'stays' could have a material impact on participation in the market.

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?

Timely and comprehensive execution of the key recommendations for contingency planning for both liquidation and liquidity will help mitigate these risks. If required, establishing a back up liquidity facility provided by the Clearing Banks or a custodian bank as well as selecting a collateral liquidation agent in advance is critical. Also, the concept of leveraging the DTCC to perform an 'offsetting' function may be beneficial. Additional measures could include a more formal governance process to validate / monitor the robustness of contingency plans.

6. What measures could be taken to reduce the likelihood of cash lenders running from a troubled dealer?
    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?

While there is no practical way to fully eliminate the risk of a precipitous lender pullback (and to do so via regulation would simply drive lenders to the less regulated, less transparent bilateral market), the best mitigants are prevention and planning.

a) Stronger guidelines for dealers would help increase solvency, including term repo financing incentives
b) Proper margining / collateral eligibility restrictions that are aligned to the risk tolerances of the organization will facilitate timely liquidation and provide for sufficiency of collateral
c) Comprehensive contingency planning and testing for both the liquidation process and liquidity needs during liquidation will help instill confidence. Liquidity providers should aggressively engage with lenders to establish defined facilities to ensure sufficient access to cash.
d) Consider evaluating the mechanics and operational resiliency of TPR by using standards that are applied to Clearinghouses as a best practice that TPR market participants could adopt to help ensure the system is adequately robust.

7. What other approaches to assessing and mitigating systemic risk in tri-party repo business arrangements should the Federal Reserve or industry leaders consider?
    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?

Aside from addressing the noted open items of asset valuations and lender pullback, the industry should consider risks of a lender default or simply a crisis of confidence scenario. Additionally, the benefits and limitations of Tri Party compared to Bilateral Repo should be reviewed.

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While a CCP could mitigate some risk, it could result in 3 new / incremental market risks:

1. Concentration Risk: A typical CCP would guarantee all trades, facing dealers and investors. Therefore, the CCP would take the entire TPR risk with dealers resulting in concentration risk.
2. Loss of Liquidity: A CCP could impose margin requirements that would extract too much liquidity from the system.
3. Moral Hazard: Since the CCP would probably be owned by market participants and have some degree of loss sharing, the risk would be spread across more players – surviving dealers picking up most of the losses. Without a finely tuned loss sharing mechanism, moral hazard for investors is a key risk.