From: Paul Lopez

Subject: Tri-party Repo Infrastructure Reform

Comment:

In terms of best practices: To foster confidence amongst participants that on equal footing or treated on pari passu basis as to legal, settlement and operational provisions, the triparty agreement should be "standardized" akin to other industry agreements such as the MRA, which is an attendant document to triparty arrangements. Distinctions would prevail in any annexes or collateral schedules, which tailored to risk parameters agreed between dealer/investor.

In "open" transactions there is perception that certain investors may be disadvantaged or prejudiced in the custodian's collateral allocation practices at end of day (inclusive custodian's own self-interest or preservation), particularly if concern that dealer may default on intraday or overnight basis. The recommendation to alter the "daily unwind" process addresses this concern in part. Open & term trades should not be subject to automatic unwind, which creates operational stress on investor to run stress scenarios on entire collateral pool pledged once again since may completely differ from prior day. Collateral should remain static unless need for dealer to substitute specific securities for deliver out purposes. Open trades should be subject to one day prior notice (4pm) that investor does not intend to roll delivered to both custodian and dealer. Equally on term trades (day prior to stated maturity). Such trades (no intent to roll by investor) can then be allowed to unwind and liquidity or cash flow impact can be more reasonably managed by dealer inclusive finding alternative investor.

Dealers should be prohibited from pledging assets or collateral that is classified as level 3 assets on own books and records for accounting purposes, which inconsistent with concept of a "market" price. Also, all dealer-provided pricing arrangements should be eliminated from triparty arrangements inclusive whole loans. If it cannot be priced by an independent pricing service with transparency of methodology used by such pricing service contracted by custodian then asset should not be available for pledge. All assets/collateral should be marked at "bid" not offer prices.

Custodians should invest in triparty platform that allows investors to enhance collateral rule set. Base collateral schedules offered by dealers are "rudimentary" and do not provide for single issuer concentration, security type or ratings concentration limitations. Possibly enhance collateral rule set to allow exclusion by specific series of cusips or industry identifiers vs generic security class descriptions that allow for a very broad range of securities as collateral. Again in worst case scenario, the concern is that an investor's allocation stuffed with the lowest rated or less liquid securities irrespective of business terms agreed with dealer.

Custodians should be transparent in pricing, allocation and default practices inclusive contingencies. Publish detailed practice manual for investors.

Money funds &/or regulated 40Act mutual fund industry already have committed "redemption" liquidity facilities or backstops provided by banks, with the two main custodians usually participants (or lead) in same. For avoidance of doubt, purpose use under such facilities should be expanded to allow a draw as temporary bridge for liquidation of any collateral taken on from a reverse repo transaction with a defaulted dealer.

Regardless of outcome, the two main custodians (JPM & BoNY) are viewed as de-facto industry utilities or clearinghouses for most dealers and mutual fund industry, thus considered systemically critical in this role. By virtue of market presence, technological edge and size (economies of scale) a duopoly of sorts has been allowed to be created. Their "market" power is considerable. One custodian is viewed as a direct and growing competitor to the industry (leading investment banking and capital markets business lines) thus inherently conflicted as to whether would act in best interests of all clients particularly those who are its biggest competitors. Based on published reports and report by Lehman bankruptcy trustee, the latter custodian is considered the most aggressive in change in practices during credit crises that disadvantaged or stressed the "system" even further, though may have been ensuring its own survival. It is possible that regulators may wish to consider whether such a systemically critical function or role should be provided by an inherently conflicted institution (same legal entity) with balance sheet and similar business pressures of its own, not to mention competitive conflicts.