Treasury Market Practices Group (TMPG)
Finalizes its Recommended Best Practices for Treasury Repo Risk Management

Introduction

The TMPG has identified a number of risks associated with current risk management practices for the Treasury repurchase agreement (repo) market, detailed in the accompanying White Paper *Non-Centrally Cleared Bilateral Repo and Indirect Clearing in the U.S. Treasury Market: Focus on Margining Practices*. In light of these risks, the TMPG is updating its existing *Best Practices for Treasury, Agency Debt, and Agency Mortgage-backed Securities Markets* to include recommendations around U.S. Treasury repo risk management. Among other practices, the TMPG recommends that all Treasury repurchase agreements be prudently risk managed. This includes the application of haircuts (or margin) on the value of the securities, in concert with other risk management techniques, as appropriate.

For repo transaction risks that are bilaterally managed, there is a lack of consistency and transparency in risk management practices. Large quantities of repos without haircuts could pose systemic risks to overall market functioning if one or more market participants were to default. Counterparties can help to mitigate these risks by imposing haircuts (or margin) on these transactions, along with other risk management tools. Prudent risk management of Treasury repo, including haircuts (or margin) alongside other robust risk management practices, would enhance financial system stability and support market function during periods of market stress.

Recognizing the demands on the industry due to the expansion of central clearing in the U.S. Treasury market and that it will take time for some market participants to develop the necessary legal agreements, policies, and procedures to align with the recommended best practice, the TMPG is recommending that firms begin implementing the repo risk management recommendations on a rolling basis prioritizing their most material counterparty exposures, and complete the process by **June 2026**. The new text is highlighted in **blue**.

Recommended Best Practices

1. **Consistent with appropriate risk management of counterparty exposures, all Treasury repurchase agreements (repos) should be prudently risk managed. This includes the application of haircuts (or margin) on the value of the securities, in concert with other risk management techniques, as appropriate.** Haircuts (or margin) and other risk management techniques, taken as a whole, should protect against counterparty credit risk, as well as the liquidity and market risks of the transaction. Haircuts (or margin) can be applied together with other risk management tools, such as position limits, netting agreements, and/or portfolio margining, and should be supported by a robust risk management framework and a complete set of legally enforceable written agreements.
2. **Documentation – whether in the form of legal agreements, trade confirmations, policies, disclosures, forms, or some combination thereof, which is understood and**

agreed in advance or at the time of trade - should describe, in all material respects, the margining regime, including timing, frequency, and thresholds of margin calls and exchanges; valuation of exposures and collateral; and close out netting and liquidation in case of counterparty default.

3. **For trades with maturities longer than overnight, to help both parties mitigate counterparty risk owing to market value changes, variation margin should be exchanged by the counterparties to the transaction on a regular basis as necessary, in the context of the overall risk management framework.**

Revised Best Practice Recommendations Around Risk Management

- **Risk Management 1. Market participants should apply appropriate risk management rigor to the clearing and settlement of all trading activity.** Neither the high credit quality of an underlying instrument nor the short length of the settlement cycle should diminish the attention paid to clearing and settlement processes and risks. Risks to clearance and settlement in covered markets can manifest themselves in a number of ways, including counterparty credit concerns and liquidity needed to cope with operational issues or processes. In their risk management framework, participants should contemplate both gross and net exposures in the clearance and settlement chain because contingency events, including counterparty default, can potentially result in unintended liquidity or credit exposure to gross trading volumes. In addition, market participants facilitating central clearing for clients should ensure that all aspects of that activity are well risk managed, including any bilateral risks that the client may pose to the participant facilitating central clearing.