Treasury Market Practices Group (TMPG)
Proposed Recommended Best Practices on 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 Consultative 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 proposing a recommended best practice for Treasury repo haircuts (or margin) and proposes to revise the existing best practice recommendation around risk management. Among other proposed practices, the TMPG recommends that all Treasury repurchase agreements should include prudent haircuts (or margin) on the value of the securities, in concert with other risk management techniques.

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. Widespread use of haircuts for Treasury repo would enhance financial system stability and support market function during periods of market stress.

The TMPG invites feedback on this material by **April 30, 2025**. The newly proposed text is highlight in **blue**.

Proposed Recommended Best Practices

1. **Consistent with appropriate risk management of counterparty exposures, all Treasury repurchase agreements (repo) should include prudent haircuts (or margin) on the value of the securities, in concert with other risk management techniques.** The haircut should reflect the counterparty credit risk, as well as the liquidity and market risks of the collateral. The haircut can be applied together with other risk management tools, such as position limits, netting agreements, and/or portfolio margining, when supported by a robust risk management framework and a complete set of legally enforceable written agreements.
2. **Legal agreements 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.** (Please refer to the proposed FAQs: Treasury Repurchase Agreement Risk Management for detailed best practice guidance.)
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.**

Proposed 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 risks that the client may pose to the participant facilitating central clearing.