TMPG | Treasury Market Practices Group

Frequently Asked Questions (FAQs): Treasury Repurchase Agreement Risk Management
The following FAQs refer to the Treasury Market Practices Group (TMPG) recommended best practices on U.S. Treasury repo risk management.

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What is the TMPG best practice recommendation for risk management around Treasury repurchase agreements?
The TMPG's guidance regarding Treasury repurchase agreements states the following:

> "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 reflect 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."

Why is the TMPG updating its best practice for Treasury repo?
The TMPG has identified a number of risks associated with current risk management practices for the Treasury repo market. For repo transaction risks that are bilaterally managed, there is a lack of consistency and transparency in risk management practices. Additionally, as a result of these dynamics, the full amount of leverage provided in the repo market may not be completely understood by market participants, and as such may not be properly risk managed or priced. Large quantities of repos without prudent risk management 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, in concert with other risk management techniques, as appropriate. Prudent risk management of Treasury repo, including haircuts alongside other robust risk management practices, would enhance financial system stability and support market function during periods of market stress.

What work did the TMPG conduct to draft the white paper and best practice recommendations?
The white paper and best practice recommendations for U.S. Treasury repo risk management are the culmination of a multi-year effort by the TMPG. Following the completion of a white paper on clearing and settlement in the U.S. Treasury secured financing transaction market in 2022, the TMPG convened a working group to study the non-centrally cleared bilateral repo market in February 2023. The working group included representation from a cross-section of Treasury market

participants including dealers, money funds, hedge funds, asset managers, financial market utilities, clearing banks, foreign central banks, along with staff from the U.S. Department of Treasury and the Federal Reserve Bank of New York. The white paper and best practice recommendations reflect the learnings from the 2022 TMPG white paper, TMPG outreach, the pilot data study on the non-centrally cleared bilateral repo (NCCBR) market conducted by the U.S. Treasury's Office of Financial Research, and the expertise of the working group members.

Given the expansion of central clearing that is occurring in the U.S. Treasury market as a result of the Securities and Exchange Commission's rule amendments, why are the recommended best practices still needed?
Many of the risks that are outlined in the white paper remain despite the market progress to expand central clearing, especially in the non-centrally cleared bilateral repo market, so maintaining a rigorous risk management framework is as important as ever. In addition, once mandatory central clearing is in full effect, not all repo transactions will likely be eligible for central clearing, meaning a segment of the NCCBR market will remain outside of central clearing.

What considerations has the TMPG made around the implementation of the recommended best practices in light of the work required by the industry to expand central clearing in the U.S. Treasury market?
Recognizing that it will take time for market participants to evaluate their current legal agreements, policies, and procedures to align with the best practice and the other demands on the industry due to the expansion of central clearing in the U.S. Treasury market, the TMPG is recommending an extended implementation period for the U.S. Treasury repo risk management practice. The TMPG recommends that firms implement the best practice by **June 2026**, and that firms use a risk-based approach to implementation of the repo risk management recommendations, where market participants implement the best practice recommendations on a rolling basis and prioritize their most material counterparty exposures.

How does the TMPG best practice recommendation for U.S. Treasury repo risk management apply to repos that are intermediated into central clearing?
Repo agreements that are centrally cleared through a central counterparty (CCP) are managed through a robust margining/risk management regime, consistent with the best practice recommendation. The risk management of centrally cleared repo is aligned with the best practice and thus centrally cleared repo already adheres to the recommended best practice. In addition, for repos that are intermediated into central clearing, market participants should adhere to the TMPG's best practices around risk management. In particular, market participants should apply appropriate risk management rigor to the clearing and settlement of all trading activity. When establishing intermediated central clearing arrangements, market participants should ensure that any bilateral risks the client may pose to the participant facilitating clearing are well managed. The best practice recommendations do not take a view on customer margin segregation for repo trades that are intermediated into central clearing.

What kind of legal agreements should be used for implementing the Treasury repo risk management best practice? Do all details governing the risk management approach need to be contained in the legal agreements?
There should be legally-enforceable 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 made available at the time of trade that 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 failure. Firms should also maintain risk management framework policies, procedures and controls, which should contemplate and provide for documentation (whether in the form of legal agreements, trade confirmations, or industry standard forms) that should be legally enforceable even when a counterparty defaults or becomes insolvent. In circumstances where close-out netting may not be legally enforceable, market participants should ensure that they have compensating risk management controls in place.

Can portfolio margining or netting agreements be used in place of haircuts (or margin) on Treasury repo?
Haircuts can be used flexibly together with other risk management tools, such as position limits, netting agreements, portfolio margining, and liens, and should be supported by a robust risk management framework and a complete set of legally enforceable written agreements. 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. Any portfolio margining written agreements should be complete, and should fully contemplate the market, liquidity, and counterparty credit risks associated with the portfolio of transactions. These arrangements should consider the degree to which the risks of various positions across the counterparties' transactions can become correlated and whether margin collected for other financial instruments can and will be used to cover Treasury repo transactions in the case of a counterparty failure. These risks should be modeled using stress scenarios, including hypothetical stress scenarios and past events, and consider the size and concentration of the counterparty's positions.

Does the TMPG provide guidance for recommended haircut (or margin) levels?
The TMPG is not prescribing a minimum or specific haircut for Treasury repo transactions. However, the TMPG does recommend that market participants address how such terms are determined in their written risk management policies and procedures. The TMPG expects that market participants will evaluate the appropriateness of the levels of haircuts consistent with the prudent management of counterparty, market, and liquidity risk and will negotiate in good faith. For more publicly available information about haircuts, the distribution of haircuts charged on tri-party repo trades can be seen on the New York Fed's Tri-party / GCF Data Visualization web page; the median haircut on repos involving Treasuries is 2%, from 2011 onward. Additionally, another publicly available haircut schedule is the Federal Reserve's Discount Window Securities Valuation and Margins Table.

Does the proposed Treasury repo risk management practice apply to all transactions in the Treasury repo market?
The TMPG recommends a risk-based approach to best practice implementation. This could include considering the size of the exposure, the nature of the counterparty, or other risk mitigation measures included in the transaction. Trading desk management and individuals responsible for the determination of credit management policies should be sure to consider the counterparty and market risks associated with all transactions and to develop robust risk management processes, including applying a margining practice where needed to prudently manage counterparty exposures.

Does the TMPG provide guidance for the timing and frequency of margin calls?
The TMPG recommends that market participants address these terms in their written agreements, subject to good faith negotiation between market participants and consistent with the prudent management of counterparty risk. In addition, the TMPG encourages all market participants to negotiate reasonable timeframes for the timing and frequency of margin calls and, where consistent with their risk management guidelines, take into consideration operational constraints of their counterparties when drafting bilateral agreements.

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About the Treasury Market Practices Group
The TMPG is composed of senior business managers and legal and compliance professionals from a variety of institutions—including securities dealers, banks, buy-side firms, market utilities, foreign central banks, and others—and is committed to supporting the integrity and efficiency of the Treasury, agency debt, and agency mortgage-backed securities markets. It is sponsored by, but is not part of, the Federal Reserve Bank of New York. Any views expressed by the TMPG do not necessarily represent the views of the Federal Reserve Bank of New York or the Federal Reserve System. More information is available at: www.newyorkfed.org/tmpg.

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