

Tri-Party Repo Infrastructure Reform  
FRBNY Questions for Comment

1. Have the sources of systemic risk in the tri-party repo market been identified correctly?

**Answer: Yes.**

2. What additional vulnerabilities or material risks should be considered in evaluating the need for reforms in this critical market?

**Answer: Improving collateral valuation (noted as a future deliverable of the Task Force) and the market's reliance on only two Clearing Banks.**

3. 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.

**Answer: Eliminating as much of the daily unwind as possible, formalizing daily settlement time(s), implementing a three-way, point-of-trade confirmation process, increasing dealers' focus on liquidity planning, greater transparency.**

b) Please comment on specific recommendations that you believe will not be effective.

**Answer: The possibility of a Dealer arranging financing for a maturing tri-party away from tri-party and the Clearing Bank not unwinding the associated collateral because the Clearing Bank is unaware of the non-tri-party financing arrangements. Also, the recommendation to Dealers and Investors to perform due diligence on the Clearing Banks may need to be repositioned as a standard audit of the Clearing Banks to avoid an unwieldy number of Clearing Bank due diligences every year.**

c) Please comment on specific recommendations that you believe may have unintended consequences.

**Answer: The industry needs to ensure that any changes made to the tri-party market do not have any unintended consequences on the bilateral repo market or other funding channels.**

d) Are there additional specific measures within the general approach proposed in the task force report that should be considered?

**Answer: See comments in answer to 3c.**

4. 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?

**Answer: All tri-party players are interdependent upon each other to fully achieve the recommendations' objectives. Sufficient lead time is critical for all parties to be able to complete their respective deliverables.**

5. 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?

**Answer: The successful implementation of the Task Force's recommendations will result in an increased cost of secured funding. This is a natural and acceptable by-product of the structural improvements these recommendations will deliver to the U.S. tri-party repo market.**

6. 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?

**Answer: A larger role for a Central Counterparty (CCP) as noted in the Paper. Netting, risk management, liquidation services are all potential benefits.**

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

**Answer: Increased term business, haircuts that are not pro-cyclical (as noted in the Paper).**

- 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?

**Answer: The establishment of a Liquidation Agent(s), as noted in the Paper.**

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

**Answer: The implementation of a debit cap by the Clearing Banks in tandem with the establishment of the aforementioned committed credit lines between the Clearing Banks and the Dealers.**

- c) 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?

**Answer: A CCP brings improved risk management, netting and novation capabilities along with standardization of practices.**