BNY MELLON
BROKER-DEALER SERVICES
Subsidiary Legal Entity

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Federal Reserve Bank of New York
33 Liberty Street
New York, New York 10045

Response to Operational Arrangements Working Group Proposal Dated December 3, 2010

BNY Mellon is pleased to offer its comments on the proposal recently published by the Operational Arrangements Working Group regarding Three Way Trade Confirmation (deal matching), Standard Settlement Time Process (maturity unwind time) and the Implementation Schedule for many of the operational initiatives. BNY Mellon is an active participant in the Operational Working Group and it generally endorses the proposal document.

First, we believe that the Three Way Trade Confirmation proposal takes into account the needs of current market participants and contains options to satisfy the largest and smallest users. We believe that the time frame for implementation as proposed - roll out beginning in April 2011 - should provide sufficient time for participants to conform to the requirements. However, implementation will require market participants to execute amendments to their existing contractual arrangements that will obligate them to provide, and BNY Mellon to act upon, matching trade instructions.

With regard to the Standard Settlement Time proposal, we believe that it is important for the Working Group to consider what effects the imposition of a strict afternoon unwind time will have on liquidity in the market. We also question if this deadline will induce market participants to forego the tri-party repo structure and instead enter repos via “street delivery”. We are concerned that this could create significant day-to-day operational burdens on custodian banks. We feel it is important not to impede settlements during the day, so long as the dealer is able to pre-fund its obligations or access committed credit facilities. We agree with the phased implementation approach outlined in the document and recognize that challenges remain in achieving the goal of reducing the settlement window (i.e., timing of GCF, finalization of DTCC positions, late day funds, cash netting).

We agree that implementation of these initiatives should be staggered and monitored in order to minimize market disruptions and give market participants sufficient time to meet the deadlines. While aggressive, the schedule appears to be achievable with total cooperation from all parties.

It is important to note that while BNY Mellon is aggressively utilizing all available resources to document, design, code, test and socialize with clients all of the system, operational and administrative changes necessary to meet the Task Force recommendations for Auto Substitution, Three Way Trade Confirmations, and Committed Credit Facilities (and all of the related projects each of these initiatives has spawned) by the proposed deadlines, timely implementation is based upon the Task Force recommended processes, time lines and operational flows as currently envisioned. To the extent that any of these are significantly changed, the published time frames may become jeopardized.

We recommend that the "troubled dealer" scenario that has been the subject of prior discussions within the Working Group be discussed further. In our view, the Working Group should continue to consider ways to minimize the market impact of a dealer default and the erosion of collateral values that could result.

Also, we suggest that issues related to optimizing the dealers' available collateral pool should be addressed. Optimization is highly beneficial for dealers and helpful to the clearing banks to ensure that collateral is used most efficiently to settle their tri-party repo trades.

Finally, the recommended reforms have a wide reaching impact on the repo market. To better assist repo market participants in understanding the effect of the Task Force recommendations, we highly recommend that a market impact study be considered; similar to other market initiatives such as Basel III.

BNY Mellon will continue to be a leader within the Industry Task Force and looks forward to working with market participants to achieve the Tri-Party Repo Reforms outlined in 2010. These are challenging but much needed reforms which require the full cooperation of all market participants for a successful implementation – we are glad to be a driving force behind these reforms.