January 14, 2011

U.S. Tri-Party Repo Task Force
c/o Federal Reserve Bank of New York
33 Liberty Street
New York, New York 10045

Re: Request for Comments – Operational Arrangements Working Group, Three-Way Trade Confirmation and Settlement Window Proposal

U.S. Tri-Party Repo Task Force,

We at Jordan & Jordan appreciate the dedication of the volunteer members of the Task Force, and specifically the efforts of the Operational Arrangements Working Group, having resulted in the December 2010 release of the *Three-Way Trade Confirmation & Settlement Window Implementation Proposal*. Thank you for the opportunity to comment on that document.

We understand the primary objective of the Task Force is to eliminate the need for large amounts of intra-day credit currently provided to dealers by the clearing banks. The matching models proposed by the Working Group step toward that goal with an operational approach to reducing risk. Having spent significant time thinking about the issues surrounding tri-party reform, and with fair knowledge of the inner-workings of the clearing and settlement processes involved, we at Jordan & Jordan wonder if matching can be accomplished in a more economically efficient and operationally streamlined manner. To that end, with a focus on facilitating the matching process and communication among the entities, we respectfully suggest an alternative approach to Three-Way Trade Confirmation for consideration by the Task Force.

The models described in your document propose three methods to submit and match trade allocations; however, it appears all three place significant technology development and/or operational burden on the three parties involved, which include the cash investors, the dealers, and the two clearing banks JPMorganChase and The Bank of New York Mellon. The third model introduces a fourth entity, an intermediary communications and/or matching vendor, to the process. We notice also that these models do not incorporate the functions performed by the Depository Trust Clearing Corporation (DTCC) and the Federal Reserve Bank of New York (FRBNY) in the settlement process.

The document also indicated that several commercial firms have expressed interest in facilitating communication and developing matching services to support the new real-time submission and matching requirements for tri-party repo account allocations. While there is some merit to encouraging competition among commercial entities to provide such services, the benefits may be offset by the loss of continuity in the process flow from trade execution through settlement, and the potential need to handle every transaction individually, as if an exception. For example, the Working Group's recommended Workflow 3 as depicted will require dealers and clearing banks to maintain records of the preferred vendor for each cash investor, and must be capable of interfacing with all of the vendors selected by investors. In Workflow 1, cash investors must monitor the websites of both clearing banks, and Workflow 2 will require the cash investor to maintain an electronic interface to both clearing banks. In addition to the numerous points of connectivity required, we are of course concerned that each will require a proprietary format. To alleviate that issue, we are hopeful that a common message standard can be agreed upon such as FIX or SWIFT.

For the following reasons, we propose to utilize the industry's existing utility, DTCC, as an alternative to involving commercial vendors, and as an alternative to increasing the industry's reliance on the clearing banks:[1]

1. Facilitate STP (straight-through-processing) with a single, consistent, simplified workflow and a uniform approach to handling trade financing.
2. Leverage the industry investment in DTCC's Fixed Income Clearing Corporation (FICC) and reduce dependence on commercial entities frequently driven by profitability pressures and corporate events.

It is with these goals in mind that we suggest an alternative to the proposed processes that would utilize a modified version of FICC's GCF system to perform these functions. A new FICC-operated Tri-Party System would require that the transaction be input only once by the investor, or monitored and affirmed in only one place. As with the GCF system, the dealers would only have to affirm or DK the transaction which, if they wished, could be automated with a transaction feed from FICC to compare to their internal systems. As soon as the trade is affirmed it would be directed to the clearing bank.

This affirmation could be done at the block level for information purposes between the investor and dealer and then confirmed at the allocated level for actual trades, with output sent to the clearing banks. It could either be left to the dealers to assure that they have received all the necessary allocations for trades, or FICC could utilize a modified version of the trade allocation software it uses for mortgage-backed trades to track the allocations for all parties.

To assist with credit monitoring, clearing bank screens similar to those created for GCF could be adapted to allow the clearing banks to see the total amount of financing done by each of their dealers on a real time basis during the day.

FICC already has all of the necessary links to the dealers and clearing banks. Going forward, the investors will, of necessity, have to input their trade allocations into any system that might be developed; therefore, it would seem more efficient to have them enter it into only one system regardless of which clearing bank any dealer utilizes. The GCF system already knows which bank a

[1] Following September 11, 2001, US regulators' concerns with the industry's reliance on two clearing banks for clearing and settlement of US government securities were expressed in the *Interagency White Paper on Structural Change in the Settlement of Government Securities: Issues and Options.* Findings and recommendations led to formation of a committee to explore creation of an industry utility or a "NewBank" to take over the functions performed by the clearing banks under certain circumstances. Rather than establishing a new utility or chartering a dormant bank, the proposed solution recommended steps for transferring operational responsibility from the troubled bank to the stronger bank.

dealer clears at and is set up to handle GCF trades which are very similar to tri-party. Since much of the functionality already exists, it might require less time and expense to make changes to the GCF system than to develop matching systems at both clearing banks.

A further development could be the creation of a netting system for all confirmed transactions of the investors that may be interested in participating. This could be designed so that, once the system closes for input at the set time (e.g. 4:30 P.M.) all open and close transactions for each investor could be netted across all of their dealer counterparts at each bank with the result being one settlement obligation to either pay or receive funds with each clearing bank.

If desired, the system could also give the clearing banks one net figure for each dealer account with each investor or, if they desired a more robust process, across all investors. In this environment, the final result could be for each bank to have only one settlement transaction for each investor and one for each of its dealers for all transactions that have been affirmed by the set closing time. For any transactions done after the closing time, the current trade-for-trade settlement could be utilized.

The process described above does not require that FICC become the counterparty to any trade and FICC would therefore not require any clearing funds or margin, although it is expected that FICC would charge a fee to support the process. It could be up to the industry to decide how this fee should be allocated among the three parties.

Another advantage of utilizing FICC would be that, if faced with a problem with either of the clearing banks (e.g., a "NewBank" situation such as loss of confidence in one of the banks), the settlement of tri-party transactions could be transferred to the remaining bank very easily.[2] It could be further developed so that the collateral supporting the tri-party repos could then be moved between the banks utilizing a version of the interbank settlement process in GCF.

We are available to meet with members of the Working Group at any time to answer questions or discuss this approach in greater detail. Thank you in advance for your consideration of our proposal to accomplish Three-Way Confirmations of tri-party repo transactions. Please contact me via e-mail at buckmaster@jandj.com, or e-mail Mary Lou Von Kaenel at marylou@jandj.com.

Sincerely,

David Buckmaster
Senior Advisor
Jordan & Jordan

[2] Ibid.