

PRESS RELEASE

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Tri-Party Repo Infrastructure Reform Task Force

Tri-Party Repo Infrastructure Reform Task Force Releases Final Report

Today, the Tri-Party Repo Infrastructure Reform Task Force (“the Task Force”), under the auspices of the Payments Risk Committee (PRC), released its final report, concluding the work of the Task Force in its current form. The report describes a desired “target state” for tri-party repo that updates the recommendations made by the Task Force in its May 17, 2010 report. The Target State outlined in the report directly addresses one of the key infrastructure weaknesses of the U.S. tri-party repo market.

“Task Force members have put in considerable time and effort over the past two years to help bring about these improvements and to develop an improved understanding of what further changes are needed,” said Darryll Hendricks, chairman of the Tri-Party Repo Infrastructure Reform Task Force. “The complex dependencies and relationships involved in the tri-party repo infrastructure have made this collective forum essential, although now it is time for this work to move on to the next phase,” Hendricks added.

As it worked to support implementation of its recommendations, the Task Force concluded that further work was necessary to concretely specify a Target State infrastructure that would facilitate the full achievement of the Task Force’s most important recommendation: the practical elimination of intraday credit associated with the settlement of tri-party repo transactions.

The full implementation of this Target State vision—and, therefore, the practical elimination of intraday credit—will require more time and technical implementation than the Task Force originally estimated and will constitute a multi-year project. At this time, the work that BNY Mellon and JPMorganChase (the “Clearing Banks”), the Fixed Income Clearing Corporation (“FICC”), dealers and lenders need to complete to realize the Target vision requires firm-specific actions, rather than the idea generation and vetting that the Task Force provided.

The Final Report issued today describes this Target State vision for the benefit of all market participants and, at a high level, the implementation programs developed by the two Clearing Banks and FICC to achieve the Target State vision. In addition, this Final Report summarizes overall progress to date regarding the Task Force’s original recommendations.

The Target State includes seven key elements that, collectively, are intended to ensure that the tri-party repo market can function effectively and efficiently with substantially reduced extensions of intraday credit by the Clearing Banks.

- Non-maturing trades will not unwind;
- Settlement process for new and maturing trades will feature one large initial batch to settle all trades confirmed and funded by 3:30 pm, with additional smaller batches settled continuously

thereafter as needed for all other trades. Settlement of maturing repos will not cause the dealer to exceed their committed credit facility;

- A clear, agreed, common rule set will govern the settlement prioritization of each Dealer's trades across all Cash Investors, and will in the future be recorded in bilateral repo documentation;
- Collateral allocation and optimization processes will be further streamlined and automated;
- Secured credit for the settlement of tri-party repo trades from Clearing Banks to be capped at 10% of a dealer's notional tri-party book when core elements of Target State are implemented;
- Legal foundation to be established for Clearing Banks to process multiple transactions simultaneously on their books, eliminating concerns with "momentary" credit exposures;
- General Collateral Finance ("GCF") Repo settlement will be better integrated with tri-party repo settlement.

For additional information about the Task Force and its work visit:

<http://www.newyorkfed.org/tripartyrepo>

About the Task Force

The Tri-Party Repo Infrastructure Reform Task Force was formed in September 2009 under the auspices of the Payments Risk Committee, a private sector body sponsored by the Federal Reserve Bank of New York. The Task Force was formed at the request of the New York Fed to address weaknesses that became visible over the course of the recent financial crisis. Mr. Darryll Hendricks, of UBS AG, is chairman of the Task Force. On May 17, 2010, the Task Force published a report with recommendations for improving the infrastructure of the U.S. tri-party repo market. The full report is also available on the Task Force website.

The work of the Task Force is developed through the joint efforts of a large number of market participants. Task Force membership includes representatives from multiple types of market participants in the tri-party repo market and relevant industry associations. Federal Reserve, US Treasury, and SEC staff participated in meetings of the Task Force as observers and technical advisors.

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