PRESS RELEASE
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Tri-Party Repurchase Agreement (Repo) Infrastructure Reform Task Force Releases Final Report

The Payments Risk Committee (PRC) today announced the publication of a final report on the work of the Tri-Party Repurchase Agreement (Repo) Infrastructure Reform Task Force.

In the analysis, the Task Force identified the following areas for improvement: operational efficiencies and arrangements; issues related to dealer liquidity risk management; margining practices and loss anticipation; contingency planning in the event of Dealer default; and transparency measures. The following are recommendations made to address these areas of concern:

- **Operational Arrangements**: Specific actions must be taken to reduce the market’s reliance on intraday credit provided by the Clearing Banks and clarify the credit and liquidity risks borne by market participants;
- **Dealer Liquidity Risk Management**: Dealers should account for the loss of secured funding within their liquidity risk management plans and liquidity stress tests, and size liquidity buffers accordingly;
- **Margining Practices**: Margining practices must be broadly strengthened. A number of margining best practices are recommended;
- **Contingency Planning**: Cash investors should develop “liquidation plans” for the management and liquidation of repo collateral in the event of Dealer default;
- **Transparency**: Greater market transparency is needed in all respects. Transparency of collateral valuation is an essential component to secured funding. Broad availability of real time prices for many collateral types should be used by Clearing Banks and Dealers to provide same-day valuation information for as large a population as possible.

The tri-party repo market represents a significant part of the overall U.S. repo market and allows market participants to obtain financing against collateral and their counterparties to invest in cash secured by that collateral. The importance of the U.S. repo market, which contributes significantly to the liquidity and efficiency of the U.S. Treasury and Agency securities markets, is underscored by the fact that it is in the market in which the Federal Reserve implements U.S. monetary policy.

"The tri-party repo market is a critically important market that contributes significantly to the liquidity and efficiency of the US treasury and agency securities market, among others," said Darryll Hendricks, Chairman of the Tri-Party Repo Infrastructure Reform Task Force. "Over the past seven months, the Task Force conducted a detailed analysis to understand and identify systemic risks in this market, and today’s report, which is the outcome of that work, provides recommendations intended to substantially mitigate those risks. I would like to thank the members of the Task Force for their hard work in developing this report."

The objective of the Tri-Party Repurchase Agreement Infrastructure Reform Task Force was to develop a set of recommendations for improving and mitigating risks related to the infrastructure supporting tri-
party repo transactions, given the important role such transactions play in supporting the liquidity and efficiency of U.S. securities markets. The Task Force met regularly, since its creation in September 2009 by the Payments Risk Committee (PRC), to discuss enhancements to the policies, procedures, and systems supporting the tri-party repo market. The Task Force membership includes a large number and variety of major tri-party repo market participants, service providers, industry groups, and others. The Federal Reserve Bank of New York provides support and input on technical and policy issues, as appropriate.

For the complete final report, visit: http://www.newyorkfed.org/prc/

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