

Section 2: Summary List of Task Force Recommendations

Operational Arrangements – The Task Force Recommendations set out the milestones for the industry action plan developed and agreed by the Task Force to eliminate to the greatest extent possible Clearing Bank extensions of intraday credit by enhancing operational arrangements in the tri-party repo market. Recommendations are addressed to all tri-party repo market participants unless specified.

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| 1. Implement operational enhancements to achieve the “practical elimination” of intraday credit by the Clearing Banks, where “practical elimination” is defined as a point beyond which the residual amounts of intraday credit extensions are both small and can be governed by transparent bilateral arrangements, known in advance to participants ⁵ . | 30 Jun 2011 |
| 1A. Clearing Banks to provide project plans in relation to their implementation of robust automated collateral substitution (“auto-substitution”) capability. | 15 July 2010 |
| 1B. Eliminate remaining sources of ambiguity or inaccuracy in tri-party repo booking procedures and trade communications to the Clearing Banks, including information related to the term of the transaction. | 31 Aug 2010 |
| 1C. Agree to standardized intraday settlement time(s) for maturing repo trades (e.g., Morning Settlement, End of Day Settlement), that will be implemented following pre-requisite enhancements (e.g., auto-substitution). | 31 Aug 2010 |
| 1D. Agree solution(s) for three-way, real-time, point of trade confirmations for tri-party repo transactions, inclusive of discussions with third-party vendors. | 15 Oct 2010 |
| 1E. Clearing Banks to complete development of software to support auto-substitution capability and confirm timelines for full implementation. | 15 Feb 2011 |
| 1F. Dealers and Cash Investors to confirm that internal processes related to all aspects of tri-party repo are prepared for the operational enhancements recommended in this Report. | 15 Feb 2011 |
| 1G. Implement market-wide, three-way, real-time, point of trade confirmation solution(s) which memorializes legally binding repo transactions entered into between Cash Investors and Dealers. | 15 Apr 2011 |
| 2. Dealers and Cash Investors to undertake regular due diligence reviews of Clearing Banks that cover, at a minimum, operational and contractual conformity, adherence to collateral allocation rules, and collateral pricing methodologies. | Ongoing |
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⁵ Market participants should target the reduction in intraday credit to be less than 10% of a Dealer’s notional tri-party book (representing the estimated portion of a Dealer’s book that reaches final maturity and is not rolled on a given day).

Dealer Liquidity Risk Management – The Task Force Recommendations support other assessments of the financial crisis in emphasizing the importance of stronger liquidity risk management.

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| 3. Dealers need to incorporate lessons from the financial crisis experience related to tri-party repo in making appropriate improvements to liquidity risk management and planning. | Ongoing |
| 4. Dealers <u>should not</u> assume that short-term tri-party repo financing with all of their counterparties throughout all market conditions is inherently stable. | Ongoing |
| 5. Dealers and Clearing Banks to assess and clarify terms for the potential availability of secured intraday credit facilities (both discretionary and committed) to mitigate the liquidity risks associated with maturing repo trades. | 15 Nov 2010 |
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Margining Practices – The Task Force Recommendations support a broad strengthening of margining practices, based on the principles that margins should be risk-based, should not be pro-cyclical, and should be based on objective/transparent criteria.

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| 6. Cash Investors, Dealers, and Clearing Banks to determine appropriate collateral margins in line with the principles set out in Section 6 of this Report, taking note of monthly Tri-Party Repo Statistics to be published on the Federal Reserve Bank of New York website. | Ongoing |
| 7. Clearing Banks to continue to share information on intraday margin methodologies and processes with respective Dealers. | Ongoing |
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Contingency Planning – The Task Force Recommendations support improving the preparedness of Cash Investors and the tri-party repo market to cope with a Dealer default.

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| 8. Cash Investors to undertake regular stress tests of tri-party repo counterparty exposures that consider a default of the largest repo counterparty together with potential changes in the market value of the underlying collateral. | Ongoing |
| 9. Cash Investors to put in place and regularly review contingency plans for a Dealer default that cover, at a minimum, a process for effectively managing collateral, including a plan to manage liquidity and risk exposure during the liquidation process. | 15 Jan 2011 |
| 10. Relevant industry associations in conjunction with their constituents are encouraged to publish comprehensive Best Practice guidance for Cash Investors. | 30 Sep 2010 |
| 11. DTCC and its affiliates to work with other market participants to maximize the potential for offsetting of positions in the event of a Dealer default; DTCC and/or other interested parties can provide a viable collateral liquidation management service for those Cash Investors wishing to delegate these activities. | 30 Nov 2010 |
| 12. All market participants to continue exploring additional concepts that have the potential to add to the stability and resilience of tri-party repo financing and/or reduce the potential for collateral “fire sales” in the event of a Dealer default. | Ongoing |
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Transparency – The Task Force Recommendations are intended to increase transparency with respect to the size, composition, and concentration of the tri-party repo market, the range of margins applied, and the valuation methodologies applied to the underlying repo collateral.

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| 13. Initiate monthly publication, via the Federal Reserve, of aggregate statistics on tri-party repo collateral and Cash Investor margin levels, with disclosure by asset class, based on information provided by the Clearing Banks. (See Table 1 for a pilot version.) | 30 Jul 2010 |
| 14. The Task Force will establish a working group of valuation specialists across tri-party repo market participants to evaluate collateral pricing methods and make recommendations for improvements, including the feasibility of same-day pricing. | 15 Oct 2010 |
| 15. Cash Investors to regularly validate tri-party collateral for pricing, appropriateness, and classification. Dealers to regularly compare collateral marks on their own books and records with vendor prices provided by the Clearing Banks. | Ongoing |
| 16. Dealers to inform Cash Investors and Clearing Banks in cases where the Dealer’s marks are materially below the vendor prices provided by the Clearing Bank. | Ongoing |
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