



# Restated Repo Trading Practices Guidelines

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## A. Confidential Nature of Transactions

1. **Confidentiality** It is the responsibility of dealers and brokers to maintain the confidentiality of the names of parties to a trade. Neither a dealer nor a broker should ask or answer any questions aimed at discovering the identity of any party to any trade, such as, for example, any characteristics of the contraparty. The only time the identity of parties to a trade is properly disclosed is after the trade is completed and, then, only to the counterparties to that trade. Nothing in this guideline shall be construed as preventing dealers or brokers from asking and or answering questions aimed at discovering the size of the offer/bid. In addition, a broker may inform a dealer that it does not have a line of credit with the other side before an offer is lifted or a bid hit, provided that no other indication is given as to the identity of the party in question.
2. **Name Give-Up** To ensure that proper credit procedures are followed, the full counterparties' names should be disclosed immediately after the bid is hit or the offer is lifted.

## B. Screen Guidelines

1. **Clearing the Picture** Parties to all trades, including term trades and off-the-run trades shall have a maximum of 20 seconds to clear the picture. After the screens have flashed for 20 seconds, a new market will appear.
2. **Life of Bid** Unless otherwise specified, all bids and offers are good until cancelled, or the end of the business day, whichever comes first.
3. **Going "Subject"** All repo markets should "go subject," whenever the cash market<sup>1</sup> goes subject. At 12:00 noon all cash settlements will go subject and the brokers will contact the dealers to renew them. By 12:05 p.m. any subject market will be removed from the screen.
4. **Standardization of Symbols** The following symbols should be used on all repo brokers screens to represent the securities indicated:

Agency	AG	Asset Backed	ABS
Bill	TB	CMOs	CMO
Less than 30	GC or L30	ARMS	ARM
Less than 10	L10	Unlimited ROS	UR
Less than 5	L5	1 Right	1R
Less than N	LN	2 Rights	2R
GNMAs	GN	N Rights.	NR
FNMA's	FN	If ARMs are specified:	FH ARM
FHLMCs	FH		FH ARM
Double As	AA		

5. **Flashing** All screens should flash for a minimum of 15 seconds and for a maximum of 30 seconds to indicate that a trade has taken place.
6. **Open Trades** Upon request, brokers may notify the repo community of repo roll rates.

<sup>1</sup> The Bond Market Association currently recommends that the cash market go subject only for Fed Open Market Operations and discount rates changes. For all other events/numbers the markets should stay "live." See, The Association's Government Securities Manual, page 4-10.

7. **Backing Up Into First Place** The practice of bettering the bid in non-standard increments, putting it up on the screen, and immediately reducing the bid to match an existing bid is discouraged. In order for a bidder who “tops” an existing bid to become first bidder, it must keep its bid on the screen the shorter of the life of the bid (10 minutes) or until the bid is hit. If the “topping” bid is immediately backed-up, the “topping” bidder is not first bidder. Any bidder may withdraw its bid at any time. Brokers shall keep track of the order in which bids are made so that, in the event that a bid “drops off,” the broker can refresh the bids in the order in which they were made.
8. **Off-screen Trading** All off-screen trades should be flashed on screens to let everyone know that a transaction has taken place.
9. **Trading In Odd Lots** The need for odd lot trading before 10:00 a.m. is recognized, but the handling of this matter is left with the business judgment of each broker. However, the following suggestion is made for brokers to consider. In the event that before 10:00 a.m., there is no market (no bid or no offer) in a particular security, a dealer should be able to show an odd lot on the screens with the understanding that if a round lot comes in before the odd lot is traded, the round lot would take precedence over the odd lot regardless of rate. For purpose of this guideline, odd lot shall mean (i) a lot of less than \$50 million for mortgage securities, overnight and term general collateral and (ii) a lot of less than \$25 million for specials (terms and overnights).
10. **Line Full/No Line** When a bid is hit or an offer is lifted and “line full” or “no line” flashed on the screen, no trade has taken place and all bids and offers should be renewed by those interested in selling/buying the particular security.
11. **“Hit When” / “Lift When”** A bidder/offeror who is informed during the clearing time period of being “hit when” / “lifted when” by a third party should treat that as a valid execution in the event that he is cleared.
12. **Screen Notations** Bids or offers incorporating unusual provision should be denoted on the brokers' screens. Example of elements that should be denote include (1) nonpayment of intervening coupons (NIC), (2) anything other than price plus accrued interest for open and overnight trades, (3) right of substitution, and (4) trades done on a “best efforts” basis.
13. **Items that Should Appear on Separate Lines** Bids and offers with stipulations should appear on separate lines on brokers' screens. In addition, all or nothing trades should appear on a different line on repo screens. If all or nothing is not specified, dealers bidding or offering amounts greater than \$50,000,000 should accept transactions in \$50,000,000 increments.

### C. Assumptions as to Manner of Settlement

1. **General** Unless the parties to a trade otherwise agree, all trades, except overnight and open trades, done before 12:00 noon will be assumed to be cash trades and all trades, except overnight and open trades, done after 12:00 noon regular trades. Unless the parties to a trade otherwise agree, all overnight and open trades will be assumed to be cash trades until the end of reversal time on Fedwire.
2. **Definition of “Best Efforts”** When two parties to a trade agree that the trade is to be done on a “best efforts” basis, the buyer assumes the risk that the seller will not be able to make the delivery within the time frame requested by the buyer. Consequently, if the seller fails to make the delivery, the seller has no risk and incurs no obligations to the buyer.

3. **Assumptions for “Best Efforts”** Generally, it is assumed that (a) the buyer in a trade done on a “best efforts” basis before the dealer-to-dealer cut-off time seeks delivery before the close of the dealer-to-dealer cut-off time, and (b) the buyer in a trade done on a “best efforts” basis before the dealer-to-customer cut-off time seeks delivery before the close of the dealer-to-customer cut-off time, etc. It is generally understood that brokers screen will flash “best efforts” 5 minutes and 59 seconds before the relevant cut-off time.

#### **D. Recommended Time Frames for Pricing Transactions**

1. **On-the-run Specials** All on-the-run specials (terms or overnight) should be priced when the name of the counterparty is given-up or, in any event, no later than 5 minutes thereafter. If the 5 minutes have elapsed and the buyer has not objected to the seller's price, the price will be deemed to have been accepted by the buyer. This guideline does not apply to trades done for longer than regular settlement (i.e. W.I. trades), which should be priced the night before settlement.
2. **All Other Trade Done for Regular Settlement** All other trades (including general collateral and mortgage securities term trades, general collateral and mortgage securities overnight trades, and off-the-run specials) settling “regular” should be priced and description of the collateral given by 11:00 a.m. (New York time) of the following morning.
3. **Cash Trades up to 10:30 a.m.** Unless the parties to a trade otherwise agree, all term and overnight trades executed through brokers and settling “cash” done up to and including 10:30 a.m. (New York time) should be priced and a description of the collateral given by 11:00 a.m. (New York time).
4. **Cash Trades after 10:30 a.m.** Unless the parties to a trade otherwise agree, all term and overnight trades executed through brokers and settling “cash” done after 10:30 a.m. (New York time) should be priced and a description of the collateral given within 30 minutes of the time that the trade is done.

#### **E. Marking-to-Market**

1. **Margin Calls** Unless the parties to a trade otherwise agree, margin calls on all dealer-to-dealer repo transactions should be met with transfers of collateral or cash. In the event that the party being marked chooses to meet its margin call with cash, such cash should not be used to change the economic substance of the trade, but will bear interest at a rate to be determined between the two parties. In the event that the party being marked chooses to meet its margin call with collateral, this will be met with transfers of collateral with characteristics similar to or better than the collateral being repoed, reasonably acceptable to the counterparty, and applied on a reasonable basis (for example, Treasury securities for Treasury securities, agency securities for agency securities, PAC REMICs for PAC REMICs, inverse floater tranches for inverse floater tranche, etc.). A maximum of one piece of collateral per one million should be delivered.
2. **Notification of Marks** A party wishing to mark-to-market its counterparties should do so by 10:00 a.m., but need not specify which issue is being marked. Such specification should be made by 12:00 noon, or earlier if possible. The person being marked can refuse to be marked when there is no net credit exposure.
3. **Periodic Review** Unless the parties to a trade otherwise agree, margins should be reviewed periodically to determine their appropriateness given the remaining term to maturity.

4. **Mechanism for Meeting Margin Calls** Margins maintenance should be achieved through margin calls. In particular, substitutions should not be the mechanism for margin maintenance.

## F. Confirmations of Forward Repos

1. **Timing and Content** Confirmations should be sent on forward repos on the day on which the trade takes place. In addition to any applicable regulatory requirements, the confirmation should specify at a minimum: the money or the par amount, as appropriate;<sup>2</sup> the start date; the end date; the rate of interest; the type of collateral; and whether there are any rights of substitutions.
2. **Definition of Forward Repo** A forward repo is a trade that settles in a longer time frame than next day settlement.

## G. Acceptable Collateral for CMO Repo Trades

1. **Tranches That Are Not Generally Acceptable** Unless the parties to a trade otherwise agree, the following tranches are not acceptable collateral for CMO repo trades: IOs, POs, inverse floaters, residuals, Z- tranches, superfloaters, re-remics, and accumulation bonds.
2. **Fedwire Securities Only** Unless the parties to a trade otherwise agree, if a repo trade is for agency CMOs, only Fedwire securities are acceptable.
3. **Upgraded Collateral** Unless the parties to a trade otherwise agree, upgraded collateral will be acceptable collateral for mortgage repo trade, provided that all other stipulations of the trade, including the haircut, are met. For example, pass-through collateral would be acceptable for CMO trade, fixed pass-through securities would be acceptable for an adjustable rate mortgage pass-through trade, and Treasury securities would be acceptable for any trade, provided all other stipulations of the trade, including the haircut, are met.

## H. Obligation to Make Coupon Payment

A repo seller is entitled to receive all interest and other income ("Income") on securities subject to repurchase transactions to the same extent it would have been entitled to receive such Income had it not entered into repurchase transactions on the securities. Consequently, if an issuer of securities fails to make an Income payment, the repo buyer should not make the corresponding Income payment to the repo seller.

## I. General Collateral Repo Allocations

The repo market allocates general collateral transactions based on the type of transactions executed. The following describes the allocation methods generally used for cash settlement, forward settlement, and replacement transactions when substitutions occur.

### 1. Par Transactions

- (a.) **Cash Settlement** When a transaction is executed on a par basis, par amount equal to the par amount transacted must be allocated.
- (b.) **Forward Settlement** Same as cash settlement.
- (c.) **Substitutions** When a transaction is executed on a par basis, the replacement transaction is done on the basis of the par amount originally transacted.

<sup>2</sup> It is generally understood that the money amount will be specified for general collateral and mortgage repo trades and the par amount for specials. If parties have agreed not to follow this convention, it is particularly important to indicate the specific agreement on the confirmation.

**Note:** The loan or principal amount may fluctuate substantially.

## **2. Money-Fill Transactions**

- (a.) **Cash** When a transaction is executed on a money fill basis, the loan or principal amount allocated must be equal to the loan amount transacted. Collateral allocation on a money-fill basis will be no more than two issues to make \$50 million.
- (b.) **Forward Settlement** Same as cash
- (c.) **Substitutions** Same as cash

**Note:** If the counterparty assigning the collateral chooses to allocate one issue to make the \$50 million, it *does not waive the right* to allocate two issues when there is a substitution.

## **J. Brokers' Screens for General Collateral Repo Trades**

Brokers screens shall clearly indicate whether a bid or offer for a general collateral trade is for money or is with a variance. If the bid or the offer is with a variance, the screens will show a "v". If the bid or the offer is for money, the screens will show a "\$". If neither a "v" nor a "\$" is indicated, it will be assumed that the offer or the bid is for par.

## **K. Mortgage Repo Trades Allocations**

It is current market convention to allocate mortgage repo trades on a money fill basis.

**Note:** Unless the parties to a trade otherwise agree, allocation for all mortgage repo trades should be no more than three pools to make \$50 million and five pools to make \$100 million.

## **L. Specials Repo Trades**

It is current market convention to allocate special repo trades on a par basis.

## **M. Substitutions**

- 1. **General** Unless the parties to a trade otherwise agree, substitutions must be consistent with the type of collateral allocation in the original transaction. (See I for types of general collateral allocations).
- 2. **Substitution on Mortgage Repos**
  - (a.) Rights of substitutions should be per pool, not per trade.
  - (b.) Unless the parties to a trade otherwise agree, money for each piece should be matched.
- 3. **Timing of Collateral Substitutions** Unless the parties to a trade otherwise agree, counterparties to trades with rights of substitution executed through brokers should be notified of the substitution by 10:00 a.m. (New York time) and provided with the description of the substituted collateral by 11:00 a.m. (New York time).



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## Update No. 96-1, Repo Trading Practices Guidelines

At the request of a significant number of members of The Bond Market Association active in the repurchase transaction markets, the Trading Practices Committee of the Association's Funding Division is publishing an optional substitution/termination provision (see below) to The Bond Market Association's Master Repurchase Agreement. The optional provision is intended to document substitution/termination language that allows the transferor (i.e., Repo Seller) to retain effective control over the transferred asset (i.e., Purchased Securities) or to elect to terminate the repurchase transaction prior to maturity (i.e., Repurchase Date) on short notice to the transferee (i.e., Repo Buyer).

Paragraph 9 (a) of the Master Repurchase Agreement (both the 1987 and 1996 versions) currently provides that the parties to a Repurchase Transaction can agree that the transferor (i.e., Repo Seller) has substitution rights. Parties may, of course, choose to enter into oral agreements with each other providing for rights of substitution, based on the advice of their legal counsel as to the enforceability of such oral agreements. Nevertheless, some market participants desired a model document provision that both provides for that right and prescribes a predetermined methodology for quantifying the economic loss suffered by the transferee (i.e., Repo Buyer) as a direct consequence of the transferor's (i.e., Repo Seller's) exercise of its substitution/termination right. In that regard, the optional provision is intended to make the transferee (i.e., Repo Buyer) economically "whole". In other words, although the transferor would maintain effective control over the specific asset transferred in connection with the repurchase transaction, the transferee would not suffer economically because the loss provision is intended to place the transferee in the same position it would have been had the transferor not effectuated that control through the exercise of the substitution/termination right.

The optional provision contains a short time frame for notice of substitution. The provision reflects the current Restated Repo Trading Practices Guidelines (Paragraph M.3.), by providing that notice of substitution should be provided by 10:00 am (New York time) for substitutions to occur on the same business day, and if notice of substitution is given after 10 am (New York time), substitution would occur on the next business day.

The Trading Practices Committee views such period as the minimal time frame necessary to effectuate the exercise of the contractual right and determine the appropriate dollar amount consistent with the contractual "make whole" provision. Parties may agree on different notice periods. The Trading Practices Committee makes no recommendation as to the contractual form through which market participants may choose to utilize the optional provision. Some participants may choose to include this provision in Annex I as a Supplemental Term and Condition of the Master Repurchase Agreement, whereas others may choose to include the provision in its written confirmations of repurchase agreement transactions. Moreover, as indicated above, certain market participants may choose to orally agree on the terms otherwise documented in the optional provision. The Association recommends that market participants consult with their legal advisors concerning the desirability or contractual form of use of this optional provision with respect to its firm's particular needs and circumstances.

## Optional Substitution Provision

- (a) In the case of any Transaction for which the Repurchase Date is other than the business day immediately following the Purchase Date and with respect to which Seller does not have any existing right to substitute substantially the same Securities for the Purchased Securities, Seller shall have the right, subject to the proviso to this sentence, upon notice to Buyer, which notice shall be given at or prior to 10 am (New York time) on such business day, to substitute substantially the same Securities for any Purchased Securities; provided, however, that Buyer may elect, by the close of business on the business day notice is received, or by the close of the next business day if notice is given after 10 am (New York time) on such day, not to accept such substitution. In the event such substitution is accepted by Buyer, such substitution shall be made by Seller's transfer to Buyer of such other Securities and Buyer's transfer to Seller of such Purchased Securities, and after substitution, the substituted Securities shall be deemed to be Purchased Securities. In the event Buyer elects not to accept such substitution, Buyer shall offer Seller the right to terminate the Transaction.
- (b) In the event Seller exercises its right to substitute or terminate under sub-paragraph (a), Seller shall be obligated to pay to Buyer, by the close of the business day of such substitution or termination, as the case may be, an amount equal to (A) Buyer's actual cost (including all fees, expenses and commissions) of (i) entering into replacement transactions; (ii) entering into or terminating hedge transactions; and/or (iii) terminating transactions or substituting securities in like transactions with third parties in connection with or as a result of such substitution or termination, and (B) to the extent Buyer determines not to enter into replacement transactions, the loss incurred by Buyer directly arising or resulting from such substitution or termination. The foregoing amounts shall be solely determined and calculated by Buyer in good faith.



## Update No. 97-1 Repo Trading Practices Guidelines

In order to eliminate confusion and promote greater efficiency in the repo markets for Treasury Inflation-Indexed Securities, the Trading Practices Committee of The Bond Market Association's Funding Division is publishing a Trading Practice Guideline recommending that *repurchase agreement transactions only* in Treasury Inflation-Indexed Securities be quoted on the basis of an "all in" price — including the inflation adjustment to the principal amount and the accrued interest on such inflation-adjusted principal. This trading practice guideline would apply to repurchase agreement transactions in Treasury Inflation-Indexed Securities, including those which are submitted for comparison and/or netting to a clearing corporation (Government Securities Clearing Corporation and Delta Clearing Corporation).

This trading practice guideline applies only to repurchase agreement transactions involving Treasury Inflation-Indexed Securities. *The Bond Market Association's Inflation Bond Trading Practices Guidelines* (dated December 18, 1996), which recommend that prices of Treasury Inflation-Indexed Securities be quoted on the basis of a "clean" price basis (unadjusted for inflation), remain in effect with respect to cash market transactions in these securities.

*This Repo Trading Practice Guideline is a recommendation only and is intended for the Association member firms in order to promote the smooth functioning of the market for securities. The recommendation does not and should not restrict the flexibility of counterparties to negotiate the specific terms of any particular repo transaction.*

(The following paragraph shall be added to the August 1, 1996 *Restated Repo Trading Practices Guidelines*)

### **N. Quoting of Prices for Repos Involving Treasury Inflation-Indexed Securities**

It is recommended that prices for repurchase agreement transactions involving Treasury Inflation-Indexed Securities be quoted on the basis of an "all in" price — including the inflation adjustment to the principal amount and the accrued interest on such inflation-adjusted principal. This includes repurchase agreement transactions involving Treasury Inflation-Indexed Securities which are submitted to a clearing corporation for comparison and/or netting (unless otherwise inconsistent with the rules of the particular clearing corporation).



## Update No. 98-1 Restated Repo Trading Practices Guidelines

The Government and Federal Agency Securities Division has recently revised its recommended trading practice guideline for the cash government securities market, further limiting the recommended circumstances when the cash government securities markets should go “subject.” The new Government Securities Trading Practice Guideline recommends that the cash markets go “subject” only for significant Fed Open Market Operations that signal a change in monetary policy, discount rate changes, and major occurrences that are expected to have a significant effect on the government securities markets (e.g., presidential assassination, state of emergency), but not for daily Fed Open Market Operations or Fed coupon or bill passes. The current Repo Trading Practice Guideline provides that the repo markets should “go subject” whenever the cash markets “go subject.”

The Trading Practices Committee of the Funding Division has opted not to follow the new cash market guideline, but to maintain the current recommendation for the repo markets to go “subject” for all Fed Open Market Operations, Discount Rate changes, and Fed Funds target rate changes. This would continue to include daily Fed Open Market Operations as well as Fed coupon and bill passes.

*This Repo Trading Practice Guideline is a recommendation only and is intended for member firms in order to promote the smooth functioning of the repo markets. The recommendation does not and should not restrict the flexibility of counterparties to negotiate specific terms of any particular repo transaction.*

(The following paragraph shall supersede *paragraph B.3.* in the *Restated Repo Trading Practices Guidelines*)

### **B. Screen Guidelines**

#### **3. Going “Subject”**

All repo markets should “go subject” for all Fed Open Market Operations (including Fed Daily Open Market Operations, Discount Rate changes, Fed Funds target rate changes and Fed coupon and bill passes) and any other major event that is anticipated to have a significant effect on the repo markets. For all other events and numbers, the markets should stay “live.”



## Update No. 98-2 Restated Repo Trading Practices Guidelines

Section A of the Guidelines, entitled “Confidential Nature of Transactions” addresses the issues of confidentiality and color in the context of blind brokered, name “give-up” and dealer to dealer repo transactions. It is the general consensus that “confidentiality” refers to the responsibility of dealers and brokers not to provide the names or identities of the parties to a trade, or other information that is aimed at discovering the name or identity of the parties to a trade, to others, and that acceptable “color” with respect to completed trades refers only to information regarding the security description, repo rate, size and time of the trade and the number of sellers and buyers involved in the trade. “Name give-up” refers to the obligation of the broker to disclose the names of the counterparties to a repo trade to each other in which the broker has disclosed it is acting solely as agent, immediately after the bid is hit or the offer is lifted.

In order to clarify the responsibilities of both dealers and brokers in repo transactions and to promote best practices in the repo markets, especially in light of the increasing volume of blind brokered repo trading, the Funding Division Trading Practices Committee has revised the Confidentiality guideline, as set forth below. The Committee recommends that both dealer and broker member firms seriously consider incorporating the recommendations contained in the Confidentiality guideline as part of their own internal compliance policies and procedures governing trader conduct.

*This Repo Trading Practice Guideline is a recommendation only and is intended for member firms in order to promote best practices in and the smooth functioning of the repo market. The recommendation does not and should not restrict the flexibility of counterparties to negotiate the specific terms of any particular repo transaction. The Association recommends that market participants consult with their legal advisors concerning the desirability of using the optional confidentiality annex to the Master Repurchase Agreement with respect to their firm’s particular needs and circumstances.*

*(The following paragraphs shall supersede and replace paragraphs A.1 and A.2 in the Restated Repo Trading Practices Guidelines.)*

### **A. Maintaining Confidential Nature of Transactions**

#### **1. Confidentiality**

**(a.) Blind Brokered Trades** Both dealers and brokers should maintain the confidentiality of the names and identities of parties to any blind brokered trade. It is incumbent upon both dealers and brokers to actively ensure that their own behavior contributes to the confidential nature of the transaction. Questions or general inquiries by dealers that are aimed at, intended to or reasonably would lead to, discover or otherwise gather information from brokers about the specific name or identity of, any party to any blind brokered trade are inappropriate. Likewise, it is inappropriate for brokers to provide any information to dealers not involved in the trade about the name or identity, or any information aimed at or intended to lead to discovery of the name or identity, of any party to a blind brokered trade.

**(b.) Dealer to Dealer Trades** It is inappropriate for dealers involved in a dealer-to-dealer principal trade to disclose any information regarding the trade, other than as described in paragraph 3 below.

**2. Name “Give-Up” Trades**

The *only* time that the identity of parties to a transaction may be disclosed is: (i) in a trade where the broker has disclosed it is acting solely as agent (i.e. name “give-up” or non-blind brokered trades); and (ii) after the trade is completed (i.e. after the bid is hit or the offer is lifted); and then, the relevant identities may be disclosed *only* to the counterparties to that trade. This is appropriate to enable member firms to follow sound credit procedures.

**3. “Color”**

When discussing completed trades, it is *only* appropriate for brokers or dealers to communicate the security description, repo rate, size and time of the relevant trade and the number of sellers and buyers involved in the trade.



## Update No. 98-3

### Restated Repo Trading Practices Guidelines

Section M.3 of the Guidelines, entitled “Timing of Collateral Substitutions” addresses the issue of deadlines for counterparties to repo transactions that have rights of substitution and which are executed through brokers. It is the general consensus that dealers should notify brokers regarding collateral substitutions *no later than 9:55 a.m. (New York time)*. There is no change with respect to the current recommendation that dealers provide brokers with the description of the substituted collateral by 11:00 a.m. (New York time). Further, it is the general consensus that brokers should notify the counterparty dealer of the substitution by *10:00 a.m. (New York time)*. Substitution notifications received after the relevant deadline will be accommodated on a “best efforts” basis.

In order to clarify the responsibilities of both dealers and brokers regarding collateral substitutions in repo transactions and to promote best practices in the repo markets, the Funding Division Trading Practices Committee has revised the Substitutions guideline, as set forth below. The Committee recommends that both dealer and broker member firms seriously consider incorporating the recommendations contained in the Substitutions guideline as part of their own internal compliance policies and procedures governing trader conduct.

*This Repo Trading Practice Guideline is a recommendation only and is intended for member firms in order to promote best practices in and the smooth functioning of the repo market. The recommendation does not and should not restrict the flexibility of counterparties to negotiate the specific terms of any particular repo transaction. The Association recommends that market participants consult with their legal advisors concerning the desirability of using the optional confidentiality annex to the Master Repurchase Agreement with respect to their firm’s particular needs and circumstances.*

*(The following paragraph shall supersede and replace paragraph M.3 in the Restated Repo Trading Practices Guidelines.)*

## M. Substitutions

### 3. Timing of Collateral Substitutions

Unless the parties to a trade otherwise agree, in all trades executed through brokers, dealers should notify the brokers of any substitution of collateral *no later than 9:55 a.m. (New York time)*. In turn the broker should notify the counterparty dealer of the substitution by *10:00 a.m. (New York time)*. Substitution notifications received after the relevant deadline will be accommodated on a “best efforts” basis. Additionally, dealers should provide brokers with the description of the substituted collateral by *11:00 a.m. (New York time)*.



## Update No. 98-4 Restated Repo Trading Practices Guidelines

Section I of the Guidelines, entitled “General Collateral Repo Allocations” addresses the methodology of allocation of repo collateral based on the type of transactions executed. It is the general consensus that a new subsection under Section I should be added to address the issue of deadlines for allocating collateral in general collateral repo trades. Unless otherwise agreed by the parties, allocations of collateral in all trades executed through brokers, or in dealer-to-dealer trades, must be called in by the counterparties *no later than 11:00 a.m. (new York time)* on all days other than “*high volume days*.” On “*high volume days*”, the deadline for allocations should be *no later than 12:00 noon (New York time)*. Note, that a “*high volume day*” is defined as the first and last business day of each calendar quarter on which the markets are open for trading and such other days as The Bond Market Association may announce no later than 24 hours prior to the occurrence of such day.

In order to clarify the responsibilities of dealers regarding collateral allocations in general collateral repo transactions and to promote best practices in the repo markets, the Funding Division Trading Practices Committee has revised the General Collateral Repo Allocations guideline, as set forth below. The Committee recommends that both dealer and broker member firms seriously consider incorporating the recommendations contained in the General Collateral Repo Allocations guideline as part of their own internal compliance policies and procedures governing trader conduct.

*This Repo Trading Practice Guideline is a recommendation only and is intended for member firms in order to promote best practices in and the smooth functioning of the repo market. The recommendation does not and should not restrict the flexibility of counterparties to negotiate the specific terms of any particular repo transaction. The Association recommends that market participants consult with their legal advisors concerning the desirability of using the optional confidentiality annex to the Master Repurchase Agreement with respect to their firm’s particular needs and circumstances.*

*(The following paragraph shall be added to amend Section I in the Restated Repo Trading Practices Guidelines.)*

### **I. General Collateral Repo Allocations**

#### **3. Timing of Collateral Allocations**

Unless otherwise agreed by the parties, in all trades executed through brokers, or in dealer-to-dealer trades, counterparties must call in all collateral allocations *no later than 11:00 a.m. (New York time)* on all days other than “*high volume days*.” On “*high volume days*”, the deadline for allocations should be *no later than 12:00 noon (New York time)*. Note, that a “*high volume day*” is defined as the first and last business day of each calendar quarter on which the markets are open for trading and such other days as The Bond Market Association may announce no later than 24 hours prior to the occurrence of such day.