



Update No. 99-1

Restated Repo Trading Practices Guidelines

The Funding Division is supplementing its Restated Repo Trading Practices Guidelines to implement, wherever practicable, the following recommendations relating to Year 2000 contingency planning. These recommendations were developed as a result of numerous meetings with market participants to consider various measures to reduce transaction volume, particularly movements of securities, in the funding markets around the millennium weekend. Reducing the volume of transactions that require settlement involving the transfer of securities at the end of December 1999 and the beginning of January 2000 is intended to promote the smooth and efficient functioning of the funding markets by reducing activity through institutions' and industry utilities' systems at a time when such systems are in transition in connection with Year 2000 remediation actions. Additionally, reducing volume will facilitate efforts to respond to any problems that might arise with the century date change. After a thorough evaluation of the substantial advantages of such volume reductions as well as the feasibility and methodology of implementing measures to achieve meaningful volume reductions, the Funding Division Executive Committee and Trading Practices Committee concluded that substantial volume reductions could be achieved on a voluntary basis.

The Funding Division recognizes that the volume reductions described above have the potential to affect the amount of liquidity available to the repo market in late December 1999 and early January 2000. Consequently, the Funding Division anticipates that these recommendations will be applied primarily in the case of discretionary repo transactions. Further, these recommendations are not intended to be applied in a manner that would significantly reduce overnight liquidity available on December 31, 1999 or January 3, 2000.

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. These recommendations do not and should not restrict the flexibility of counterparties to negotiate the specific terms of any particular repo transaction, nor should these recommendations, nor adherence to all or any part of them, be deemed to constitute a waiver of any legal rights or remedies of the parties under the applicable transaction documentation.

A. Open Repo Trades

1. All open trades should be closed-out or converted to term no later than December 30, 1999.
2. If converted to term trades, December 31, 1999, and January 3 and 4, 2000, should be avoided as repurchase dates.
3. Where possible, clean-up price differential, outstanding margin calls and fails prior to December 30, 1999.

B. Term Repo Trades

1. Attempt to avoid December 31, 1999, and January 3 and 4, 2000, as repurchase dates for term repo trades where possible, while not precluding the possibility of using any of these dates as repurchase dates if a specific need is identified.
2. All quotes on interdealer brokers' screens for repo trades should avoid repurchase dates of December 31, 1999, and January 3-4, 2000.
3. Prior to December 31, 1999, repo counterparties should pre-calculate and agree upon the amount of income payments and mark-to-market adjustments on outstanding trades due to coupon interest payments scheduled to be paid during the first week of January 2000; however, cash payments and margin calls will be made in accordance with normal time frames.

C. Overnight Repo Trades

1. While it is contemplated that overnight financing will be available on December 31, 1999, and January 3, 2000, where feasible—and in order to avoid placing unnecessary burdens on various systems—term trades or open trades with repurchase dates extending out to sometime after January 4, 2000, would be preferable.

D. Forward Start Repo Trades

1. All forward start repo trades—other than those with start dates prior to December 31, 1999—should have start dates no earlier than January 12, 2000.

E. Settlement of Repo Trades

1. Repo counterparties should send, and if necessary match, settlement instructions for the off leg of repos prior to December 30, 1999, for all repo trades with repurchase dates during the first week of January 2000 (e.g., January 3-7, 2000).

F. Marking-to-Market and Margin Calls on Repo Trades

1. Marks should be performed and satisfied in a timely fashion, as required under the relevant transaction documentation.

G. Substitutions in Repo Trades

1. Substitutions in repo trades should be avoided to the extent possible on December 31, 1999, and January 3 and 4, 2000, consistent with the above recommendations which generally discourage the transfer of securities during the first week of January 2000.