



Update No. 99-2 Repo Trading Practices Guidelines

Section G of the Restated Repo Trading Practices Guidelines deals with acceptable collateral for CMO repo transactions. Recently, the Funding Division decided to amend Section G.1 of the Guidelines, entitled "Tranches That Are Not Generally Acceptable" to permit the use of re-REMICS as acceptable general collateral for CMO repo trades. This change is being implemented as the result of a recommendation of the Funding Mortgage Repo Working Group, which determined that pursuant to current market practice, most dealers have already begun to generally treat re-REMICS as acceptable general collateral in repo transactions. It was the general consensus that the Restated Repo Trading Practices Guidelines should reflect this current market practice.

In order to clarify that the use of re-REMICS as collateral for CMO repo trades is acceptable under the Guidelines, the Funding Division Trading Practices Committee has revised the "Acceptable Collateral for CMO Repo Trades" guideline by deleting the reference to re-REMICS in Section G.1 altogether, as set forth below.

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 following paragraph shall supersede and replace G.1 in the Restated Repo Trading Practices Guidelines.)

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, and accumulation bonds.