

## **Update No. 2004-1\_\_**

### **Restated Repo Trading Practice Guidelines**

In order to promote greater efficiency and liquidity in the repo markets, the Trading Practices Committee of The Bond Market Association's Funding Division is publishing a Trading Practice Guideline recommending the same-day extension of collateral allocation deadlines in certain instances. Section I.3 of the Restated Repo Trading Practice Guidelines currently provide for the extension of collateral allocation deadlines on "high volume days", which are 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." However, given the unpredictable occurrence of days on which a large number of collateral substitution requests occur, the Trading Practices Committee has recommended that the Guidelines be supplemented to recommend a process by which the Government Securities Division of the Fixed Income Clearing Corporation (FICC) can obtain sufficient information to institute a same-day extension of its repo collateral substitution notification deadlines on days other than "high volume days", and the Association can inform its members of such extension. (This recommendation supercedes and replaces Update 2003-1.)

*This Repo Trading Practice Guideline is a recommendation only and is intended for the Association's 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*)

#### **P. Same-day Extension of Collateral Substitution Deadline**

**1. Timing** Prior to 10:05 AM on each day on which the markets are open for trading, inter-dealer broker (IDB) participants of the Government Securities Division of the Fixed Income Clearing Corporation (FICC) should notify FICC of the number of collateral substitution requests they have received for such trading day. If any one IDB receives 40 or more collateral substitution requests, or IDB participants in the aggregate receive 150 or more collateral substitution requests, FICC should notify the Association that it is extending its repo collateral substitution notification deadline by one hour. The Association will distribute a notice, substantially in the form shown below, to its relevant committees upon such notification from FICC by 11:00 AM on such day.

**2. "Collateral Substitution Request"** For purposes of this guideline only, a "collateral substitution request" is defined as a request received by an IDB to substitute a \$50 million block of securities. In cases involving a request to substitute more than one \$50 million block of securities, each \$50 million block (and any remaining "tail piece") will be counted as a collateral substitution request, whether the total amount of securities consists of the same or different securities (e.g. a request to substitute \$250 million worth

of securities, whether of the same security or different securities, will be considered to be five collateral substitution requests).

**Sample Collateral Substitution**  
**Deadline Notice**

TO: Funding Trading Practices Committee  
Brokers Working Group  
Government Operations Committee  
Mortgage Operations Committee

FROM: [\_\_\_\_\_]

DATE: [\_\_\_\_\_]

RE: **Same-Day Extension of Collateral Substitution Notification Deadline**

Pursuant to Section P of the Restated Repo Trading Practice Guidelines (“Guidelines”), the Association is notifying market participants that the Government Securities Division of the Fixed Income Clearing Corporation (FICC) has been informed by at least one of its inter-dealer broker (IDB) participants that such IDB has received 40 or more collateral substitution requests, or that its IDB participants have received, in the aggregate, 150 or more collateral substitution requests. As a result, FICC has extended its repo collateral substitution notification deadline of 12:00 PM by one hour to 1:00 PM. (Collateral substitution notifications will still be accepted by FICC up until 1:30 PM, but will be subject to a \$100 late fee. After 1:30 p.m. collateral substitutions will be processed by FICC on a good faith basis only, and those substitutions that FICC is able to process will be assessed a \$250.00 late fee.)

cc: Funding Division Executive Committee  
Primary Dealers Committee  
Dave Cosgrove, Fixed Income Clearing Corporation  
Brian Swann, Goldman, Sachs & Co.  
Kevin Corrigan, Goldman, Sachs & Co.  
Eric Foster, The Bond Market Association  
Brian MacWilliams, The Bond Market Association  
Markus Sgouridis, The Bond Market Association (European Office)