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Update No. 2004-2
Restated Repo Trading Practice Guidelines

The Trading Practices Committee and the Executive Committee of The Bond Market Association's Funding Division is publishing a Trading Practice Guideline for "prompt delivery" trading. This Guideline would allow market forces (as reflected in special collateral repo rates) to better facilitate the resolution of situations where a particular Government Security is experiencing an extraordinary level of settlement fails such as that occurring last fall in the May 2013 U.S. Treasury 10-Year Note. The new Guideline allows member firms to operate under the same assumptions in "prompt delivery" trading, most notably, but not exclusively, in a negative repo rate environment.

The Association today adds a new Section Q. to the 1996 Guidelines clarifying what constitutes a "prompt delivery" trade. This Guideline should ensure that there is a mechanism whereby firms that hold a particular Government Security have adequate incentives for making such securities available to dealers and other market participants that need to use these securities to cover a short position or otherwise make delivery to a third-party. By establishing a clearer set of trading conventions that can be agreed upon between market participants when a security is trading special, the Association hopes to promote greater liquidity and facilitate a more efficient price discovery process in the repo markets.

The Association published an Exposure Draft of the new Trading Practice on September 20, 2004. The final Guideline contains one clarifying change to the text published in the Exposure Draft. Language has been added making it clear that if the seller fails to deliver on the start leg of a "prompt delivery" trade within the prescribed fifteen (15) minutes, the trade is cancelled and neither party has any further obligations with respect to that trade.

Recommendations Only

These Repo Trading Practice Guidelines are recommendations only and are intended for the Association's member firms in order to promote the smooth functioning of the repo market for Government Securities. The recommendation does not and should not restrict the flexibility of counterparties to negotiate the specific terms of any particular repo transaction, including additional stipulations or conditions.

Legal Status under the MRA

While a fail to deliver on the start-leg or close-leg of a repo transaction is an event of default under the Association's Master Repurchase Agreement (MRA), market participants may choose not to trigger an event of default for fails which occur in the ordinary course of business. Dealers, inter-dealer brokers, electronic trading platforms, and other market participants interested in facilitating repo trading under these guidelines should consult with their own attorneys regarding how to ensure that these voluntary guidelines are legally enforceable with their counterparties or users.

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

Q. Prompt Delivery

1. Definition of "Prompt Delivery": All "prompt delivery" repo trades will be cash trades with the seller required to make delivery to the buyer within fifteen (15) minutes of the trade being executed.

2. Assumptions for "Prompt Delivery" Trades: When two parties to a repo trade agree that the trade is to be done on a "prompt delivery" basis, the buyer assumes the risk that the seller will not be able to make the delivery on the start-leg within the fifteen (15) minute time frame specified above. Consequently, if the seller fails to make timely delivery, the seller and buyer have no risk and incur no obligation to the buyer or seller, respectively, and the trade is cancelled. Furthermore, unless otherwise agreed between the parties, a "prompt delivery" repo transaction does not mean that the buyer is agreeing to any additional representations with respect to its ability to make delivery on the close-leg of the transaction. At the time of the trade the relevant IDB for a "prompt delivery" trade shall disclose to each counterparty the name of the other counterparty (name give-up).

3. Additional Screen Guidelines for Prompt Delivery Trades

The intent of parties to enter into a "prompt delivery" repo transaction should be clearly signified on the IDB screen by placing a "PD" before the transaction on the screen. The repo rate of a repo transaction (including "negative rate" repo transactions) should not be relied upon to determine whether the parties intend to enter into a "prompt delivery" repo transaction.