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Negative Rate Repo Trading Guideline

Update No. 2006-1

Restated Repo Trading Practice Guidelines

A. Introduction

The Trading Practices Committee and the Executive Committee of the Funding Division of The Bond Market Association ("Association") is publishing a Trading Practice Guideline for "negative rate" repo trading. This Guideline was published as an exposure draft in December 2005 and the text set forth below is the same as that published for comment. The Guideline is designed to facilitate, where appropriate, negative rate repo trading between Association members in FedWire eligible book-entry securities.

B. Discussion and Proposed Trading Practice Text

In order to promote greater efficiency and liquidity in the repo markets, the Association recommends the following guidelines for "negative rate" repo transactions.

While a fail to deliver on the so-called "start" or "on"-leg of a repo transaction is an event of default under the Association's Master Repurchase Agreement ("MRA"), market participants may choose not to exercise default remedies, while not waiving such rights, for fails which occur in the ordinary course of business. This recommendation is intended to standardize the practices regarding penalties associated with a Seller failing to deliver on a repo transaction where the Repo Rate (as defined in the MRA) is negative. The Association's purpose in publishing this recommendation is to promote continued liquidity by providing a mechanism to encourage market participants to continue to participate in the market during periods where rates for a particular security go negative and to encourage market participants who act as a Seller in negative rate repo transactions to deliver the underlying security.

These Repo Trading Practice Guidelines are a recommendation only and are 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.

While a fail to deliver or redeliver on the start-leg or close-leg of a repo transaction may be an event of default under the MRA, market participants may choose not to exercise default remedies, while not waiving such rights, 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)

R. Conventions for Negative Repo Rate Transactions

1. **Negative Rate Repo**: A negative rate repo transaction is a transaction for which the Pricing Rate (as defined in The Bond Market Association's Master Repurchase Agreement) is less than zero (each such transaction a "Negative Rate Repo").
2. **Purchase Date**: If a transaction is a Negative Rate Repo, and if the Seller fails to make timely delivery on the "on" or "start"-leg of the repo transaction and the Buyer chooses not to exercise default remedies, while not waiving such rights, under its applicable master agreement, the Pricing Rate for that transaction will be reset to the absolute value of the original negative Pricing Rate (i.e. negative rate 1 is reset to positive rate 1). If at any time during the original term of a Negative Rate Repo for which the Seller has not delivered the securities and the Buyer has not exercised its rights to declare a default, the Seller delivers the securities subject to the transaction, the Pricing Rate will revert to the originally agreed upon Pricing Rate but only for the remaining term of the transaction.

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