

## **FEDERAL RESERVE SYSTEM**

**Docket Number OP-1573**

### **Request for Information Relating to Production of Rates**

**AGENCY:** Board of Governors of the Federal Reserve System.

**ACTION:** Notice and request for public comment.

**SUMMARY:** The Board of Governors of the Federal Reserve System (Board) is considering the production and publication of three rates by the Federal Reserve Bank of New York (FRBNY), based on data for overnight repurchase agreement transactions on Treasury securities. The Board is inviting public comment to assist the Federal Reserve in considering and developing this proposal.

**DATES:** Comments must be received by [Insert 60 days after publication in the Federal Register].

**ADDRESSES:** You may submit comments, identified by Docket No. OP – 1573, by any of the following methods:

- **Agency Web Site:** <http://www.federalreserve.gov>. Follow the instructions for submitting comments at <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm>.
- **Federal eRulemaking Portal:** <http://www.regulations.gov>. Follow the instructions for submitting comments.
- **E-mail:** [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov). Include the docket number in the subject line of the message.
- **Fax:** (202) 452-3819 or (202) 452-3102.
- **Mail:** Address to Ann E. Misback, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW, Washington, DC 20551.

All public comments will be made available on the Board's web site at <http://www.federalreserve.gov/generalinfo/foia/ProposedRegs.cfm> as submitted, unless modified for technical reasons. Accordingly, comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper in Room 3515, 1801 K Street NW. (between 18th and 19th Streets NW.), Washington, DC 20006 between 9:00 a.m. and 5:00 p.m. on weekdays.

**FOR FURTHER INFORMATION CONTACT:** David Bowman, Associate Director, (202-452-2334), Division of International Finance; or Christopher W. Clubb, Special Counsel (202-452-3904), Evan Winerman, Counsel (202-872-7578), Legal Division; for users of Telecommunications Device for the Deaf (TDD) only, contact (202-263-4869).

**SUPPLEMENTARY INFORMATION:**

**I. Background**

FRBNY, in cooperation with the U.S. Office of Financial Research (OFR), is considering publishing three rates based on overnight repurchase agreement (repo) transactions on U.S. Treasury securities (Treasury repo). The publication of these rates, targeted to commence by mid-2018, is intended to improve transparency into the repo market by increasing the amount and quality of information available about the market for overnight Treasury repo activity. The three overnight Treasury repo rates would be based on transaction-level data from various segments of the repo market.

The U.S. Treasury securities market is the deepest and most liquid government securities market in the world. It plays a critical and unique role in the global economy, serving as a means of financing the U.S. federal government, a significant investment instrument and hedging vehicle for global investors, a risk-free

benchmark for other financial instruments, and an important market for the Federal Reserve’s implementation of monetary policy.

Treasury repos are critically important for the U.S. financial system and for the implementation of monetary policy. A repo transaction is the sale of a security, or a portfolio of securities, combined with an agreement to repurchase the security or portfolio on a specified future date at a prearranged price.<sup>1</sup> A repo also has the economic characteristics of a collateralized loan. The initial seller of the security (the “securities provider”) may view itself as a borrower of cash and the initial buyer of the security (the “cash provider”) may view itself as a lender in a secured transaction. The discount on the repurchase is equivalent to an interest rate. In the event the securities provider is unable to repurchase the securities (*i.e.*, repay the loan) at maturity, the cash provider is entitled to liquidate the securities to obtain repayment.

The market for Treasury repos includes a “tri-party” segment (a submarket of which is executed through the GCF Repo® service offered by the Fixed Income Clearing Corporation (FICC)) and a bilateral segment. All tri-party repos—and some bilateral repos—are made against a pool of “general” collateral rather than specific securities. In a general collateral (GC) repo, the cash provider stipulates a population of acceptable collateral (*e.g.*, all Treasury securities), but does not stipulate the specific securities that the securities provider must pledge.

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<sup>1</sup> For a detailed discussion of the U.S. repo market, see FRBNY Staff Report No. 740, “Reference Guide to U.S. Repo and Securities Lending Markets,” (Revised Dec. 2015) [https://www.newyorkfed.org/medialibrary/media/research/staff\\_reports/sr740.pdf](https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr740.pdf) .

A. Tri-party repo market

In a tri-party repo, a clearing bank is used to facilitate the clearing and settlement of the transaction by managing the securities and ensuring that the securities adhere to the cash provider's eligibility requirements (as noted above, all repo transactions currently conducted over tri-party repo platforms are GC repos). Tri-party repos settle on the books of the clearing bank, where cash and securities are transferred between the cash provider's and securities provider's respective accounts. Among the most prominent cash providers in this segment are money market mutual funds and cash collateral reinvestment accounts managed for securities lenders, while the primary securities providers are securities dealers. Bank of New York Mellon (BNYM) and JPMorgan Chase (JPMC) currently serve as the two clearing banks in the tri-party repo market. JPMC announced in July 2016 that it plans to exit government securities settlement for broker-dealers by the end of 2018. After 2018, BNYM may become the sole clearing bank in the tri-party repo market for Treasury securities.

The tri-party Treasury repo market is important because it provides market liquidity and price transparency for U.S. government securities and thereby fosters stable financing costs for the U.S. government. It also serves as a critical source of funding for many systemically important broker-dealers that make markets in U.S. government securities. The tri-party repo market interconnects with other payment, clearing, and settlement services that are central to U.S. financial markets.

Currently, information available to the public about rates of return in the market for tri-party Treasury repos is limited. Pursuant to the Board's supervisory authority, however, the FRBNY collects trade-by-trade data on tri-party Treasury repo

transactions on a daily basis from the two clearing banks. This data set includes: the interest rate of the transaction; the parties to the transaction; information on the collateral that may be pledged in the transaction; the type of transaction; the date the transaction is initiated; the date the transaction becomes effective; the date the transaction matures; whether the transaction is open-ended (*i.e.*, has no specific maturity date); the value of funds borrowed in the transaction; whether the transaction includes an option (*e.g.*, the ability to extend or terminate early); and, if the transaction includes an option, the minimum notice period required to exercise such an option.

B. General Collateral Financing (GCF) repo market

GCF Repo, introduced by FICC in 1998, permits FICC's netting members to trade cash and securities among themselves based on negotiated rates and terms. GCF Repo trades are completed on an anonymous basis through interdealer brokers and settle on the two clearing banks' tri-party repo platforms. FICC acts as a central counterparty in GCF Repo, serving as the legal counterparty to each side of the repo transaction for settlement purposes. GCF Repo is designed as a general collateral repo service, where FICC defines the set of permissible collateral classes.

Securities dealers currently rely on GCF Repo transactions for a variety of functions, including raising funds and seeking securities to fulfill tri-party repo obligations. FRBNY has entered into an agreement with DTCC Solutions LLC (DTCC Solutions), an affiliate of the Depository Trust & Clearing Corporation (DTCC), to obtain data regarding GCF Repo transactions.<sup>2</sup> This data set includes: the interest rate of the

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<sup>2</sup> FICC's GCF Repo service only clears interdealer repo transactions. The Securities and Exchange

transaction; information on the collateral that may be pledged in the transaction; the date the transaction is initiated; the date the transaction becomes effective; the date the transaction matures; the value of funds borrowed in the transaction; and an indicator differentiating between repos and reverse repos in relation to the central counterparty.

### C. Bilateral repo market

Unlike the tri-party repo market, in the bilateral repo market, counterparties instruct their custodians to exchange cash and securities without the use of a third party to manage collateral and facilitate centralized settlement. In order to effect settlement, the parties identify specific securities for their custodians to transfer. As a result, the bilateral repo market can be used to temporarily acquire specific securities (referred to as specific-issue collateral). Depending on the individual market for each security, repos for specific-issue collateral can take place at much lower rates than GC trades, as cash providers may be willing to accept a lesser return on their cash, or even at times accept a negative return, in order to secure a particular security. Such securities are commonly referred to as “specials.” However, because all bilateral transactions must identify the securities being delivered in order to settle, it is not possible to determine from settlement data whether, in any particular trade, a cash provider intended to invest cash against general collateral (at the general collateral market rate) or to acquire specific securities (at a possibly lower rate for “specials”).

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Commission recently approved a change to FICC’s rulebook to permit a new FICC service to clear tri-party repo transactions involving buy-side cash lenders, called the “Centrally Cleared Institutional Tri-Party Service” or the “CCIT™ Service.” 82 FR 21439 (May 8, 2017). At this time, it is not anticipated that the three proposed rates would include data regarding the CCIT repo transactions.

Bilateral repo transactions fall into two segments: bilateral repo cleared through FICC's Delivery-versus-Payment (DVP) service and non-cleared bilateral repo. Repos cleared through FICC's DVP service are similar to GCF Repo in that they both allow for clearing in interdealer repo markets and both novate transactions to FICC. GCF repos, however, are exclusively blind brokered, while DVP repos can be blind brokered or directly negotiated. Non-cleared bilateral repo transactions are conducted entirely outside the services offered by FICC and do not settle on the clearing banks' tri-party repo platforms, and detailed information about that segment is not currently available.

FRBNY has entered into an agreement with DTCC Solutions to obtain data regarding FICC-cleared Treasury bilateral repo transactions. This data set includes: the interest rate of the transaction; information on the specific collateral that is pledged in the transaction; the date the transaction is initiated; the value of funds borrowed in the transaction; and an indicator differentiating between repos and reverse repos in relation to the central counterparty.

## **II. Production of Treasury repo rates**

In order to provide the public with more information regarding the interest rates associated with repo transactions, the FRBNY proposes to publish interest rate statistics for overnight Treasury repos. As described below, the FRBNY proposes to publish three different rates.

A. Proposed Rates

*Rate 1: Tri-party General Collateral Rate (TGCR)*

This rate would measure the rate of return available on overnight repo transactions against Treasury securities in the tri-party repo market, excluding GCF Repo and transactions in which the Federal Reserve is a counterparty.<sup>3</sup> As currently envisioned, the FRBNY would calculate the rate based on the transaction-level tri-party data collected from BNYM under the Board of Governors' supervisory authority as described above. This rate would focus on the dealer-to-customer activity in tri-party repo and would capture a narrower set of transactions relative to the other two proposed rates.

*Rate 2: Broad General Collateral Rate (BGCR)*

This rate would provide a broader measure of rates on overnight Treasury GC repo transactions. As currently envisioned, the FRBNY would calculate the rate based on the same transaction-level tri-party data collected from BNYM as in the TGCR plus GCF Repo data obtained from DTCC Solutions as described above. This rate would therefore reflect both dealer-to-customer and interdealer repos. By including data from different tri-party platforms, this rate would represent a broader, more diverse transaction set than the first rate, resulting in greater resiliency to market evolution. However, idiosyncratic pricing behavior over month- and quarter-ends in the GCF Repo transaction base could result in divergence from other money market rates depending on relative volume in the GCF Repo market.

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<sup>3</sup> The Federal Reserve may enter into bilateral and tri-party Treasury repos in order to implement monetary policy. The three proposed rates are intended to reflect market rates, and will exclude Federal Reserve repos because Federal Reserve repo transactions are priced at a policy rate rather than a market rate.



*Rate 3: Secured Overnight Financing Rate (SOFR)*

This rate would be the broadest measure of rates on overnight Treasury financing transactions by also including bilateral Treasury repo transactions cleared through FICC's DVP service, filtered to remove some (but not all) transactions considered "specials."<sup>4</sup> As currently envisioned, the FRBNY would calculate the rate based on the tri-party data from BNYM, GCF Repo data from DTCC Solutions, and FICC-cleared bilateral repo data from DTCC Solutions. This rate would capture the broadest set of transactions, resulting in the rate most resilient to market evolution, but would not be a pure GC repo rate.

*B. Calculation of the Rates*

The FRBNY proposes to use a volume-weighted median as the central tendency measure for each of the three Treasury repo rates described above. While the volume-weighted mean, median, and trimmed mean would be similar to each other based on historical data, the median is more resistant to erroneous data, and would be consistent with the methodology used for the Effective Federal Funds Rate (EFFR) and Overnight Bank Funding Rate (OBFR).<sup>5</sup> Further, in instances when the three statistical measures differ considerably from each other, the median has generally been more representative of where the bulk of trading has taken place. FRBNY also proposes to publish summary statistics to accompany the daily publication of the rate, which would consist of the 1st, 25th, 75th and 99th volume-weighted percentile rates, as well as volumes.

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<sup>4</sup>For example, the FRBNY could use a filter such as simply excluding the lowest quartile of bilateral transaction volume.

<sup>5</sup>In the event of an even number of transactions in the data set, the median would be considered to be the higher of the two numbers (i.e., it would be rounded up).

The target publication time for the three rates and their summary statistics would be each morning at 8:30 ET. The repo rates would only be revised on a same-day basis, and only if the updated data would result in a shift in the volume-weighted median by more than one basis point. Such revisions, which should be a rare occurrence, would be effected that same day at or around 2:30 ET and would result in a republication of updated summary statistics. In the event the previously noted data sources were unavailable, the rates would be calculated based upon back-up repo market survey data collected each morning from FRBNY's primary dealer counterparties. FRBNY may decide to revise the summary statistics or publish additional summary statistics on a lagged basis.

For each rate, FRBNY would exclude trades between affiliated entities when relevant and the data to make such exclusions are available. To the extent possible, "open" trades for which pricing resets daily (making such transactions economically similar to overnight transactions) would be included in the calculation of the rates. The inclusion of these open transactions is intended to ensure that the proposed rates incorporate all relevant transactions, and will mitigate risks around potential changes in market practice. Each of the rates could be modified in the future in response to market evolution or to incorporate additional market segments if data become available.

### **Solicitation for Comments on Production of the Rates**

To assist the Board in considering the production of the proposed rates, the Board seeks public comment on the following questions:

1. Would the proposed rates be useful to market participants, researchers, or others?  
For what purpose(s)?

2. Are one or more of the proposed rates more likely to be useful than the other(s)?  
For what purpose(s)?
3. Are there changes to one or more of the rates that would make them more useful?  
For what purpose(s)?
4. Are there particular sources of data or data sets that should be incorporated in the calculation of the rates that would make the rates more useful to the public?
5. Are there changes that should be made to the proposed manner of calculating and publishing the three rates?
6. Is the proposed time of publication early enough to facilitate the use of the rates for various purposes?
7. Is the use of the volume-weighted median appropriate? Is there a different measure of the central tendency of the distribution of individual transacted rates that would be better suited? For what purpose(s)?
8. Are the proposed summary statistics useful to the market? For what purposes?  
Would other summary statistics be more useful to accompany the daily publication, instead of or in addition to those proposed?

### **Administrative law**

In accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3506; 5 CFR part 1320, Appendix A.1), the Board reviewed the proposal under the authority delegated to the Board by the Office of Management and Budget. For purposes of calculating burden under the Paperwork Reduction Act, a “collection of information” involves 10 or more respondents. As noted above, the data to be used to produce the proposed rates will be obtained solely from (1) BNYM with respect to tri-party GC repo data and (2) DTCC

Solutions with respect to GCF repo data and DVP bilateral repo data. Therefore, no collection of information pursuant to the Paperwork Reduction Act is contemplated by the proposed rate production at this time.

The Regulatory Flexibility Act (5 U.S.C. 601 et seq.) (“RFA”) generally requires an agency to perform an initial and a final regulatory flexibility analysis on the impact a rule is expected to have on small entities. The RFA imposes these requirements in situations where an agency is required by law to publish a general notice of proposed rulemaking for any proposed rule. The production of the rates does not create any obligations or rights for any private parties, including any small entities, and so the publication of a general notice of proposed rulemaking is not required. Accordingly, the RFA does not apply and an initial and final regulatory flexibility analysis is not required.

**By order of the Board of Governors of the Federal Reserve System, August 22, 2017.**

*Ann E. Misback (signed)*

**Ann E. Misback,  
Secretary of the Board.**

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