



**International Repo Council/
European Repo Council**

Repo Trading Practice Guidelines

The Repo Trading Practice Guidelines listed below are an initiative to establish comprehensive best market practices for the European Repo Markets. They have been compiled from discussions with ISMA, TBMA and ACI; as well as through discussions at a number of meetings at the European repo committee level and discussions with dealers and brokers active in the market.

The Repo Trading Practice Guidelines are recommendations only and are intended for the European repo council (ERC) member firms in order to promote the smooth functioning of the market for securities. The recommendations do not and should not restrict the flexibility of counterparties to negotiate the specific terms of any particular repo transaction.

These guidelines are designed to provide best practice guidelines for all market participants (i.e. Dealers, Inter-Dealer Brokers and Automated Trading Systems).

1. Conduct of Business:

Each member of the ERC shall at all times conduct its business in such a manner so as not to bring the International repo council (IRC) and the ERC into disrepute.

2. Legal Agreement:

Repo transactions should be subject to a legal agreement between the two participants concerned, such as the TBMA/ISMA Global Master Repurchase Agreement or other suitable agreements agreed by the counterparties. The agreement should enable the participants to comply with any capital adequacy requirements to which they are subject and, at a minimum, should cover the following:

- 2.1 The agreement should provide for the absolute transfer of title to securities (including any securities transferred through substitution or mark-to-market adjustment of collateral).
- 2.2 The agreement should provide for daily marking-to-market of transactions.

- 2.3 The agreement should provide for appropriate initial margin and for maintenance of margin, or repricing, whenever mark-to-market reveals a material change in value.
- 2.4 The agreement should specify clearly the events of default and the consequential rights and obligations of the counterparties.
- 2.5 The agreement should provide, in the event of default, for full set-off of claims between the parties.
- 2.6 The agreement should also include provisions clarifying the rights of the parties regarding the substitution of collateral and the treatment of coupon and interest payments in respect of securities subject to it including, for example, the timing of any payments.

3. Confidentiality:

- 3.1 Both Inter-Dealer Brokers (Brokers) and Repo Dealers (Dealers) should maintain the confidentiality of the names and identities of parties to any blind brokered or give-up name trade. It is incumbent upon both dealers and brokers to actively ensure that their own behavior contributes to the confidential nature of the transaction. Questions or general inquiries by dealers that are aimed at, intended to or reasonably would lead to, discover the or otherwise gather information from brokers about the specific name or identity of, any party to any blind brokered or give-up name trade are inappropriate. Likewise it is inappropriate for brokers to provide any information to dealers not involved in the trade about the name or identity, or any information aimed at or intended to lead to discovery of the name or identity of any party to a blind brokered or give-up name trade.
- 3.2 Dealer to dealer trades: It is inappropriate for dealers involved in a dealer-to-dealer principal trade to disclose any information regarding the trade, other than as described in paragraph 3.4 below.
- 3.3 Name give-up trades: The only time that the identity of parties to a transaction may be disclosed is: (i) in a trade where the broker has disclosed it is acting solely as agent (i.e. name give-up or non-blind brokered trades); and (ii) after the trade is completed (i.e. after the bid is hit or the offer is lifted); and then, the relevant identities may be disclosed *only* to the counterparties to that trade. This is appropriate to enable member firms to follow sound credit procedures.
- 3.4 Color: When discussing completed trades, it is *only* appropriate for brokers and dealers to communicate to the parties to the trade the

security description, repo rate, size and time of the relevant trade and the number of sellers and buyers involved in the trade.

4. Screen Guidelines:

- 4.1 Off-screen trading: All trades transacted at a screen based broker should be flashed on screen to notify market participants that a trade has taken place.
- 4.2 Clearing the picture: Parties to all trades shall have a maximum of 30 seconds to clear the picture. After the screens have remained unclear for 30 seconds, a new market may appear.
- 4.3 Life of bid/offer: Unless otherwise specified, all bids and offers are good until cancelled, or the end of the business day, whichever comes first.
- 4.4 Flashing: All screens should flash for a minimum of 15 seconds and a maximum of 30 seconds to indicate that a trade has taken place.
- 4.5 Line full/No Line: When a bid is hit or an offer lifted and “line full” or “no line” flashed on the screen, no trade has taken place and all bids and offers should be renewed by those interested in buying/selling the particular security.
- 4.6 “Hit When”/“Lift When”: A bidder/offeror who is informed during the clearing time period of being “hit when” or “lifted when” by a third party should treat that as a valid execution in the event he is cleared.
- 4.7 Screen notations: Brokers should establish standard screen notations and clearly indicate either unusual trade stipulations or the requirement of a central netting counterparty.

5. Recommended Time Frames for Pricing Transactions:

Specials: All trades on specials(issue specific) should be priced when the name of the counterparty is disclosed or, in any event, no later than 15 minutes thereafter. Trades on general collateral should be priced no later than 15 minutes after the collateral allocation notification.

6. General Collateral Repo Allocations:

Notification of collateral for general collateral trades should take place promptly following the disclosure of the counterparty and no later than one hour from the time of trade execution. In the case of collateral substitutions,

if substitutions have been agreed at the time of trading, notification of new collateral should take place no later than one hour from the original notification of the substitution. The target is to specify such collateral substitution at settlement day minus 2, with a recommendation of settlement day minus 1 being the latest acceptable time.

In the case of forward repos, a dummy ticket could be booked on the trading day and collateral agreed closer to settlement day if parties agree at the time of trading, but notification should in any case take place no later than settlement date minus 1 by 4:00pm CET.

7. Recommended Delivery Size:

Unless otherwise stipulated, the maximum delivery size for an individual security should be no greater than 50 million. Bids or offers which cannot meet this criteria should be indicated on the screen as "All or None"(AON). Parties to a transaction may, at times, make exceptions to this on a mutually agreeable basis.

8. Marking to Market:

8.1 Unless the parties to the trade otherwise agree, margin calls on all dealer to dealer repo transactions should be met with transfers of collateral or cash. In the event that the party being marked chooses to meet its margin call with cash, such cash should not be used to change the economic substance of the trade, but will bear interest at a rate to be determined between the two parties. In the event that the party being marked chooses to meet its margin call with collateral, this will be met with transfers of collateral with characteristics similar to or better than the collateral being repoed, reasonably acceptable to the counterparty, and applied on a reasonable basis.

8.2 Notification of Marks: A party wishing to mark to market its counterparties should do so by (1:00 PM CET) but need not specify which issue is being marked. Such specifications, if agreed to be required by both parties, should be made within one hour of initial notification. Collateral for margin should be allocated and notified by the counterparty prior to 4:00 PM CET.

8.3 Margin Thresholds: It is recommended that there be no standard margin threshold although counterparties may agree to thresholds based on their mutually agreed credit assessments.

8.4 Settlement of Margin: Unless otherwise agreed, it is recommended that all margin obligation be settled on a next day basis. This

recommendation is designed to provide flexibility for current settlement agent deadlines, however, the goal of the ERC is to recommend that margin be settled in the most timely and efficient manner with the final goal of real time margin.

9. Confirmations of Forward Repos:

9.1 Timing and Content: Confirmations should be sent on forward repos on the day on which the trade takes place. In addition to any applicable regulatory requirements, the confirmation should specify, at a minimum: (i) the money or the par amount, as appropriate, (ii) the start date; (iii) the end date; (iv) the rate of interest; (v) the type of collateral; and (vi) whether there are rights of substitution. It is recommended that the counterparties attempt to exchange the maximum information relating to the economic known components of the trade.

9.2 Definition of Forward Repos: A forward repo is a trade that has a starting settlement date of a longer time frame than normal settlement in the outright market for the underlying security.

10. Obligation to make coupon payment:

A repo seller is entitled to receive all interest and other income ("Income") on securities subject to repurchase transactions to the same extent it would have been entitled to receive such income had it not entered into repurchase transactions on the securities. Consequently, if an issuer of securities fails to make an Income payment, the repo buyer should not make the corresponding Income payment to the repo seller.

11. General Collateral:

Collateral acceptable for dealer to dealer trades quoted as general collateral or indicated as such on a broker screen or an electronic trading system will be defined by the ERC and posted on ISMA's website. Additions and deletions to this list will be considered in the normal course of business and regulations of the ERC.

12. Business Day Convention:

All market participants should use the Modified Following Business Day Convention, where if the maturity date of a repo falls on a day that is not a Business Day the maturity date shall be in the first following day that is a Business Day, unless that day falls in the next calendar month, in which case the maturity date will be the first preceding day that is a Business Day.

To clarify, if a repo is made on the final Business Day of a particular calendar month, the maturity of the repo shall be on the final Business Day of the month in which it matures (repos are dealt on an end-end basis).

For fixed periods shorter than 1 month (O/N, T/N, S/N, 1W, 2W) the Maturity Date shall be the first day which is a Business Day and falls at least one, seven, fourteen calendar days from the Value Date, regardless of whether it is in the next calendar month.

Participants attempting to use odd settlement dates should specify the exact dates to the Inter-dealer Broker or to the Automated Trading System at the time the order is submitted.

Market participants are encouraged to both enquire and to specify as to the exact maturity (End) dates for transactions prior to execution.

Approved and adopted by the international repo committee on August 20, 2003

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PA/ys