

GOV #:	GOV088-15
Date:	November 2, 2015
To:	Government Securities Division Netting Members
Category:	Service Updates
Subject:	GCF Repo® Service - Suspension of Interbank Trading

This Notice is to advise members that the Fixed Income Clearing Corporation (“FICC”) will suspend the execution of GCF Repo transactions on an interbank basis, **effective as of the close of business on July 15, 2016** (the “Suspension Date”). After the Suspension Date, interdealer brokers will only be permitted to execute transactions among GCF Repo participants within the same clearing bank. This suspension is subject to regulatory approval.

All GCF Repo transactions that are submitted on an interbank basis prior to the Suspension Date will be permitted to settle in accordance with the terms of the transactions. Any additional clearing bank fees associated with the settlement of these transactions will be passed through to GCF Repo participants with settlement obligations.

Background

FICC has been committed to working with JP Morgan Chase (“JPM”) and The Bank of New York Mellon (“BNY”, together with JPM, the “Clearing Banks”) throughout the entire tri-party reform process. FICC’s efforts have been designed to ensure that the GCF Repo settlement process would be better integrated with the tri-party settlement process. Some of the settlement integrations that have taken place thus far include the following:

- moving the close of GCF Repo trading from 3:30pm to 3:00pm,
- moving the morning unwind of GCF Repo collateral allocations to 3:30pm,
- acceptance of collateral substitutions on an intrabank basis, and
- GCF Repo “Net of Net” settlement.

The last integration step was to address the current interbank GCF Repo settlement process, which relies on large amounts of intraday credit from both Clearing Banks to FICC to facilitate settlement. All collateral that is settled via interbank is unwound the next morning to FICC’s account at the pledging bank in order to make the collateral available for “intrabank” substitutions. In order to facilitate this process, the Clearing Banks currently extend credit each business day to FICC at no charge.¹

¹ Because the morning unwind of interbank collateral would be temporary (i.e., until a final solution was agreed to), BNY and JPM agreed not to charge FICC a fee to facilitate this settlement model.

The remaining steps to complete this full integration included: (1) building an interbank collateral substitution hub (the “Sub Hub”) that would provide an automated substitution process for interbank collateral and (2) creating an end-of-day interbank settlement process designed to operate within a capped and committed credit facility provided by both Clearing Banks. The Sub Hub project was intended to (1) eliminate the need for the morning interbank unwind, (2) provide substitution functionality for interbank collateral and (3) keep all collateral pledged until 3:30pm.

Recently, FICC was advised that the Sub Hub has been determined not to be feasible due to potential lengthy development timelines and, therefore, will not be moving forward. Because the current interbank settlement cannot be supported given the cost of intraday credit facilities and operational constraints involved in potentially capping the activity, FICC will no longer operate the interbank functionality after the Suspension Date.

Therefore, as of the Suspension Date, FICC will suspend interbank trading until such time that an alternative solution can be identified and implemented. All GCF Repo transactions that are submitted on an interbank basis prior to the Suspension Date will be permitted to settle in accordance with the terms of the transaction. FICC has been advised that a capped facility with commitment and usage fees will be imposed on September 1, 2016. As such, FICC will pass all clearing bank fees associated with the settlement of these remaining transactions to GCF Repo participants with settlement obligations.

Please contact your Relationship Manager with any questions or concerns.