FINANCIAL INFORMATION FORUM

July 17, 2024

By email

Office of Financial Research
U.S. Department of the Treasury
717 14th Street, NW
Washington, DC 20220
Attn: Michael Passante, Chief Counsel
Sriram Rajan, Associate Director of Financial Markets
Laura Miller Craig, Senior Advisor
Corey Garriott, Director of Research

Re: U.S. Department of the Treasury, Office of Financial Research, Ongoing Data Collection of Non-Centrally Cleared Bilateral Transactions in the U.S. Repurchase Agreement Market, 12 CFR Part 1610

Dear Mr. Passante, Mr. Rajan, Ms. Miller and Mr. Garriott,

Financial Information Forum ("FIF") is submitting this letter on behalf of the members of FIF in response to the rule recently adopted by the Office of Financial Research of the U.S. Department of the Treasury (the "OFR") to require firms that meet specified activity thresholds ("covered reporters") to report to the OFR specified data relating to non-centrally cleared bilateral repurchase agreement transactions ("repos").[1] FIF is submitting this letter as a supplement to the letter that FIF submitted on June 20, 2024.[2]

This letter presents additional questions identified by FIF members. Given the additional issues discussed below, FIF members believe that an extension of the current implementation period is appropriate. Such extension could be for a shorter period than requested in the prior FIF letter. FIF members also request that the OFR provide public written guidance as soon as possible in response to the questions set forth below and the questions set forth in the prior FIF letter.

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[1] 12 CFR §1610.11 (Non-centrally Cleared Bilateral Repurchase Agreement Data).
[2] Letter from FIF to the OFR dated June 20, 2024, available at https://fif.com/index.php/working-groups/category/271-comment-letters?download=2953:fif-letter-to-the-treasury-department-s-office-of-financial-research-relating-to-the-implementation-of-reporting-of-non-centrally-cleared-bilateral-repos&view=category.

1. **Reporting the haircut field**

For each position, a covered reporter is required to report the "Haircut", which is defined in the rule as "The difference between the market value of the transferred securities and the purchase price paid at the inception of the transaction."[3] It is unclear, for this calculation, whether a covered reporter is required to consider the market value of the transferred securities at the current date or the market value of the securities at inception. FIF members request that the OFR provide public written clarification on this point. We assume solely for purposes of this letter that the OFR is referring to the market value of the transferred securities at the inception of the transaction.

2. **Substitution of securities when substituting securities have a different security identifier**

The current rule does not allow for proper reporting when substituting securities have a different security identifier

Covered reporters are required to report the following data elements for each record (i.e., reported position):

- "Securities value at inception", which is defined as "The market value of the transferred securities at the inception of the transaction, inclusive of accrued interest."[4]
- "Securities value currency", which is defined as "The currency used in the Securities value and Securities value at inception fields."[5]
- "Haircut" (see previous section)."[6]

The current rule does not allow for the proper reporting of these data elements in scenarios where securities are substituted during a transaction with securities that have a different identifier (for example, a different CUSIP).

We consider two scenarios. In the two scenarios in this section, we assume that all securities transferred at any point in time have the same security identifier. In the next section, we discuss the scenario where securities with different security identifiers are transferred for a single repo at a specific point in time.

Scenario 1

Consider the following scenario:

- At the inception of a repo transaction, the cash borrower transfers U.S. Treasury securities to the cash lender
- On a subsequent day, the borrower exercises its right to substitute securities, and the borrower transfers U.S. Treasury securities with a different security identifier to the lender in exchange

[3] 12 CFR §1610.11(c)(3), Table 1.
[4] Ibid.
[5] Ibid.
[6] Ibid.

for return by the lender of the U.S. Treasury securities that were originally transferred (the original securities).

It is unclear, for this scenario, how a covered reporter should report the securities value at inception. The covered reporter could report the value at inception of the substituting securities, but this would be misleading because the substituting securities were not transferred at the inception of the transaction. The covered reporter also might not have this value readily available, particularly for less liquid securities. Alternatively, the covered reporter could report the value at inception of the original securities, but this also would be misleading because the covered reporter would be reporting other data elements (i.e., securities identifier type, security identifier, securities quantity, and securities value) based on the substituting securities and would be reporting the securities value at inception based on the original securities.

Scenario 1 presents the same challenge for reporting the haircut data element.

Scenario 2

We now consider Scenario 2, which presents additional challenges:

- At the inception of a repo transaction, the cash borrower transfers U.S. Treasury securities to the cash lender
- On a subsequent day, the borrower exercises its right to substitute securities, and the borrower transfers U.K. bonds denominated in pounds (the substituting securities) to the lender in exchange for return by the lender of the U.S. Treasury securities that were originally transferred (the original securities).

Scenario 2 presents the same challenges as Scenario 1 and also presents additional challenges. It is unclear, for Scenario 2, how a covered reporter should report the securities value currency field. The covered reporter could report the securities value at inception based on the substituting securities and, accordingly, report the securities value currency as U.K. pounds. As discussed for Scenario 1, this would be misleading because the U.K. bonds were not transferred at inception of the transaction. Alternatively, the covered reporter could report the securities value at inception based on the original securities. If the covered reporter takes this approach, there would be no way for the covered reporter to properly report the securities value currency field because the currency used in the securities value field (U.K. bonds) would be different from the currency used in the securities value at inception field (U.S. dollars).

FIF member recommendations

FIF members recommend that the OFR remove the securities value at inception and haircut fields, because this data is already known to the OFR based on a covered reporter's reporting of the securities value and start leg amount when a covered reporter first reports a transaction. If the OFR does not agree to this recommendation, the OFR should require that the securities value at inception and haircut fields only be reportable the first time a repo is reported. If the OFR does not agree to this recommendation, the OFR should provide guidance that a covered reporter is not required to report these two fields when there has been a substitution of transferred securities with securities that have a different security identifier. If the OFR agrees to this last approach, the OFR should provide a way for a covered reporter to report that there has been a substitution of transferred securities with securities that have a different security identifier.

The OFR also should change the description of the securities value currency field to remove any reference to the currency used in the securities value at inception field. In other words, the securities value currency field should be based solely on the currency that applies for the securities value field.

3. Repos involving securities with different identifiers

The current rule does not allow for proper reporting when multiple securities with different identifiers are transferred for a single repo transaction

A repo can involve the simultaneous transfer of multiple securities with different identifiers (for example, different CUSIPs) in connection with a single repo transaction. The current file structure does not accommodate reporting for this type of repo transaction because a covered reporter, when reporting a repo, is only able to report a single value for each of the following fields:

- Securities identifier type
- Security identifier
- Securities quantity
- Securities value
- Securities value at inception
- Securities value currency
- Haircut.[7]

For covered reporters to report securities with different security identifiers associated to a single repo, the OFR would need to provide a record structure that would allow for the reporting of the seven fields above as a two-dimensional list (also referred to as a two-dimensional array). This list structure would enable a covered reporter to report a list where each item in the list represents all transferred securities with the same security identifier; for each item in the list, the covered reporter would report the seven fields above. This is also sometimes described as a "block" structure where the seven fields above are reported as a "block" one to many times for a specific repo (for this purpose, we use the term "block" to refer to a block of data elements and not a block trade). This is also sometimes referred to as a "nested" reporting structure.

FIF member recommendations

One potential approach to address this issue would be to exclude from reporting any repo that involves transferred securities with different security identifiers.

[7] Ibid.

As an alternative, the OFR could restructure the report so that each record could include transferred securities with different security identifiers. Given the limited implementation period, FIF members do not believe there is sufficient time for the OFR to implement this type of solution. FIF members do not consider CSV to be the appropriate format for this type of multi-level (i.e., nested) record structure. FIF members believe, for example, that XML (as one example) would be a more appropriate file format for this type of multi-level record structure.

If the OFR were to adopt this second approach, the OFR would need both a short-term and long-term solution. As a short-term solution, the OFR would need to provide a method to enable a covered reporter to identify any repo where the transferred securities include securities with different security identifiers. The following is one of many potential approaches that the OFR could adopt for a scenario involving the transfer of securities with different security identifiers:

- The covered reporter would report a default value identified by the OFR (for example, "MAC", which is an abbreviation for Multi-Asset Collateral) for the securities identifier type and security identifier fields.
- The covered reporter would report a default quantity identified by the OFR (such as repeating 9s) for the securities quantity and securities value at inception fields.
- If the transferred securities are the same currency, the covered reporter would report the securities value; if the transferred securities are not the same currency, the covered reporter would report the securities value field as a default quantity identified by the OFR.
- If the transferred securities are the same currency, the covered reporter would report the securities value currency; if the transferred securities are not the same currency, the covered reporter would report a default value identified by the OFR (for example, MAC).

This is one of many approaches that the OFR could consider as a short-term solution. "MAC" is just one of many default values that the OFR could consider.

A third potential approach would be to add a collateral sequence (or equivalent) field. As an example, if a repo has transferred securities with three different security identifiers, a covered reporter would report three rows for the security. The first row would report a value of 1 for the collateral sequence field; the second row would report a value of 2 for the collateral sequence field; and the third row would report a value of 3 for the collateral sequence field. Each row would repeat all the terms of the repo for the fields that are not related to the transferred securities and would report separate values for the seven fields that relate to the transferred securities (i.e., securities identifier type, security identifier, securities quantity, securities value, securities value at inception, securities value currency, and haircut). The OFR would know that the rows are reporting duplicative information for the repo because the rows would be linked through a common Transaction ID. If the OFR were to adopt this approach, the OFR would need to remove the validations described in the current Technical Specifications that will reject files that contain the same Transaction ID and Unique transaction ID ("UTI") for multiple rows.[8] In lieu of

[8] Technical Guidance for Transmission of the Report of Non-centrally Cleared Bilateral Transactions in the U.S. Repurchase Agreement Market, Office of Financial Research, Report OFR SFT-2 (May 6, 2024), available at

creating a new collateral sequence field, the OFR could allow covered reporters to add a suffix to the Transaction ID field such that the root value for the Transaction ID would be the same across the three records and the suffix would be reported as a sequence to differentiate the three records.

FIF members are available to provide input to OFR representatives to assist in identifying an appropriate solution to address this issue.

4. Securities transferred at the portfolio level

The current rule does not allow for proper reporting when securities are transferred at the portfolio level

There are scenarios where multiple repos (typically associated to the same master agreement) are associated to the same pool of transferred securities (i.e., the multiple repos are collateralized by a single pool of securities). This is sometimes referred to as transferring securities at the "portfolio" level. Each repo has its own UTI, and the UTIs are linked through a portfolio code. There are further scenarios where securities are initially transferred at the transaction (i.e., UTI) level and subsequent valuation margin is transferred at the portfolio level. The current file and record format for reporting repos to the OFR does not account for these scenarios.

FIF member recommendations

Given the limited implementation period, FIF members believe that the best short-term solution is to maintain the file format as currently provided and have covered reporters report the same transferred securities for multiple repos. As a longer-term solution, the OFR might need to provide (i) a "portfolio code" (or equivalent) field for covered reporters to link multiple repos that are associated to the same pool of transferred securities, and (ii) a collateral pool identifier to allow for linkage of a pool of transferred securities to a specific repo or portfolio. FIF members are available to provide input to OFR representatives to assist in identifying an appropriate long-term solution to address this issue.

5. Activity by foreign branch of a U.S. bank

The adopting release for the rule (the "adopting release")[9] provides as follows:

> … as stated in the NPRM, transactions conducted outside the United States by covered reporters are within scope, because their exclusion could allow covered reporters to avoid reporting by settling a transaction outside the U.S., and these transactions contain information on cross-border exposures that are relevant for financial stability monitoring.[10]

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https://www.financialresearch.gov/data/collections/files/nccbr-technical-guidance.pdf ("Technical Guidance"), at 7.

[9] 89 FR 37091 (May 6, 2024) (Ongoing Data Collection of Non-Centrally Cleared Bilateral Transactions in the U.S. Repurchase Agreement Market).

[10] Id. at 89 FR 37101.

FIF members request clarification as to whether a U.S. bank is required to include activity by its foreign branches in determining whether the U.S. bank qualifies as a covered reporter (as defined in the rule). FIF members further request clarification as to whether a U.S. bank that qualifies as a covered reporter would include activity by its foreign branch in its reporting.

FIF members do not believe that covered reporters would seek to execute and settle transactions through a foreign branch with the express purpose to avoid reporting, as a covered reporter would need to identify a legitimate business purpose for executing and settling transactions through a foreign branch. Accordingly, FIF members believe that activity of foreign branches should not be reportable.

6. Reporting of the Covered Reporter LEI for activity by a foreign branch of a U.S. bank

For each daily position record that a covered reporter reports, the covered reporter is required to provide the Covered Reporter LEI.[11] According to the Technical Guidance published by the OFR, the OFR will validate that the "Covered Reporter LEI is the same for all records."[12] A foreign branch of a U.S. bank is permitted, but not required, to have an LEI that is different from the LEI of the U.S. bank. If a U.S. bank that is a covered reporter is required to report activity of its foreign branch (see previous section), and assuming that a foreign branch of the U.S. bank has its own LEI that is different from the LEI of the U.S. bank, FIF members request confirmation that the U.S. bank could report its own LEI (and not the LEI of the foreign branch) when reporting the activity of the foreign branch. If this were not permitted, the U.S. bank would not be able to submit its report if it had reportable activity for both the U.S. bank and the foreign branch (because the report would fail the validation described above).

A covered reporter is also required to include its LEI in the file name.[13] FIF members request written confirmation that, in the scenario where a U.S. bank has a foreign branch that has reportable activity, the U.S. bank should report its own LEI in the file name rather than the LEI of the foreign branch.

FIF members note that the significant majority of foreign branches do not have their own LEI. However, there are some foreign branches that have a distinct LEI.

7. Implementation period

During a telephone conversation on July 8, 2024, a representative from the OFR communicated to me that the OFR would not be granting an extension of the compliance dates for OFR repo reporting. FIF members request that the OFR reconsider this decision in light of the additional issues raised above. If the OFR does not agree to reconsider this decision, FIF members request that the OFR communicate in writing its reasons for not granting an extension of the current compliance dates.

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[11] 12 CFR §1610.11(c)(3), Table 1.
[12] Technical Guidance, at 7.
[13] Id. at 2.

FIF is submitting this letter on an expedited basis given the limited implementation period. FIF members continue to discuss implementation of OFR repo reporting and could have additional issues to raise in the future.

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FIF and our members appreciate the OFR's attention to the items set forth in this letter. Please contact me at howard.meyerson@fif.com if you have any questions or would like further clarification as to any of the items above.

Very truly yours,

/s/ Howard Meyerson

Howard Meyerson
Managing Director, Financial Information Forum