FEDERAL RESERVE BANK *of* NEW YORK   *Serving the Second District and the Nation*

OPERATING POLICY

Federal Reserve Bank of New York Policy on Counterparties for Market Operations

November 9, 2016[1]

Disclaimer

The Federal Reserve Bank of New York's relationships with private sector counterparties described in this policy are business, not regulatory, relationships entered into by the New York Fed for the purposes described herein. That a firm is a New York Fed counterparty is not an endorsement of the firm by the New York Fed and should not be used as a substitute for independent analysis and due diligence by other parties considering a business relationship with the firm.

The New York Fed undertakes open market operations at the direction of the Federal Open Market Committee (FOMC),[2] under Section 14 of the Federal Reserve Act (FRA).[3] Additionally, the New York Fed undertakes market operations as fiscal agent of the United States, under Section 15 of the FRA. The New York Fed may also undertake market operations in connection with its provision of services to various official accountholders.

The New York Fed may undertake these operations with private sector market counterparties. This document describes general principles of the New York Fed's management of such counterparty relationships.

In general, the New York Fed:

- Transacts primarily with regulated banks and broker-dealers, and considers other types of counterparties only when appropria to effectively execute its responsibilities;

- Seeks to transact with counterparties that do not pose an undue level of credit risk exposure to the New York Fed or to the parties on whose behalf the New York Fed executes market operations; and

- Seeks to transact with counterparties that operate on a sufficient ongoing scale to be able to support the New York Fed's ability to fulfill its execution needs. The New York Fed anticipates that the scale of these needs may vary over time and across operatic types.

In addition, the New York Fed expects all counterparties to:

- Operate in accordance with the Best Practices for Treasury, Agency Debt and Agency Mortgage-Backed Securities Markets that are published by the New York Fed-sponsored Treasury Market Practices Group (TMPG) and FX market best practices guidance, such as the FX Global Code, promulgated by the Global Foreign Exchange Committee and the New York Fed-sponsored Foreign Exchange Committee;

- Provide insight into developments in the markets in which they transact with the New York Fed, on an ongoing basis;

- Meet any minimum capital or other standards that are set forth by their primary regulator;

- Provide information as needed for the New York Fed's counterparty risk management and monitoring; and

- Have a compliance program in place that is consistent with sound practice observed in the industry and supports adherence to the terms of its counterparty relationship with the New York Fed.

Expectations and eligibility requirements that the New York Fed has established for counterparties with respect to specific types operations are detailed at the links below. While these expectations are operationalized differently for different types of operations, they involve the following principles:

- Participate competitively according to standards for participation established for the operations for which the firm has been designated a counterparty.

- Maintain the minimum operating scale required for any operations in which the firm transacts with the New York Fed.

- Have in place the business continuity and resiliency arrangements required for the operations in which the firm participates.

All of the foregoing considerations will inform the New York Fed's management of its counterparty relationships. The New York Fed may also consider other information that it deems material to the counterparty relationship.

Upon expression of interest by a firm, via submission of the information requested, the New York Fed will consider adding the firm as a counterparty. Materials and information for those interested in becoming a New York Fed counterparty can be found at these links:

- Primary dealers

- Standing repo facility counterparties

- Reverse repo counterparties

- Foreign exchange counterparties

- Foreign reserves management counterparties

This policy, and the operation-specific expectations and eligibility requirements outlined at the links above, are for the sole benef of the New York Fed, and the stakeholders at whose direction it may act, and will be administered at the New York Fed's discretion. They create no rights, in, to or for any counterparty or prospective counterparty. The New York Fed is not obligated to add any specific firm as a counterparty, maintain a specific number of counterparties or add any eligible entities as counterpartie The New York Fed is not obligated to transact with any counterparty, and may stop doing so at any time for any reason. Additionally, the New York Fed may terminate a counterparty relationship at any time for any reason. In making such decisions, the New York Fed will typically consider whether its expectations are being met, as well as its own business needs.

[1] This policy was updated on June 16, 2017, to include reference to the FX Global Code.

[2] The FOMC has selected the New York Fed as the Reserve Bank that executes operations for the System Open Market Account. This authorization is renewed each January

[3] Open market operations include all operations conducted to implement monetary policy directives of the FOMC, and to execute foreign exchange and foreign reserves management transactions for the System Open Market Account.

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