

Agreements Used by the Federal Reserve Bank of New York in Reserve Asset Investment and Monetary Policy Implementation

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I. Introduction

A. Central bank reserves generally: What they are? Why are reserves held by governments and central banks?

- Central bank reserves represent the national savings and may be held for a number of reasons:
 - (1) Domestic reserves: open market operations (inflation targeting/long term stability and growth, smooth out the business cycle);
 - (2) Foreign currency: may be used to support exchange rate policies or to redress imbalances in imports/exports;
 - (3) Reserves may also be used to pay for goods and services procured by the government either domestically or through international trade.

- **US Monetary Policy Objectives:** Section 2A of the Federal Reserve Act requires that monetary policy as set by the Board of Governors of the Federal Reserve System and the Federal Open Market Committee be directed towards “the economy’s long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.”³

B. Role of central bank in managing reserves: One fundamental function performed by a central bank is the management of reserves. In connection with such management the central bank must always be aware of the purposes for which reserves are held and the need for liquidity and security in order to meet policy objectives. A central bank may wish to generate a return on funds or other assets (including securities or commodities) not currently being used in connection with policy implementation. But if a central bank decides to generate additional return care should be taken to manage the risks.

- An example of the dangers of overly-aggressive management:

³ 12 U.S.C. § 225a.

- Some central banks (most significantly those of Portugal, Yugoslavia, and Malaysia) experienced material losses after the failure of Drexel. These central banks had used Drexel as their agent in attempts to generate return on holdings in gold. When Drexel collapsed, these central banks, just as other market participants that had dealings with Drexel, were forced to participate in the insolvency wind-up of Drexel and eventually received back significantly less than their invested principal.
- A portfolio return goal or the use of a benchmark may be useful in defining an acceptable return. This may be particularly important if a private manager/investment adviser is used as goals and limits can serve as ways to limit the risk profile of the investments of the central bank.
- Consideration should be given to diversification with respect to currencies, securities, commodities or other investment products. A diversified portfolio can limit the risk to the portfolio with respect to a single segment of the financial market.

C. Types of reserve holdings: Central banks will generally hold both securities and funds as reserves. Different types of transactions have been structured for both securities holdings and funds to both increase yield and meet policy objectives.

II. Domestic transactions involving reserve funds

A. Examples of transaction types used by the NY Fed in domestic open market activity:

- **Repurchase Agreements:** Repurchase agreements (“repos”) are used by many central banks and monetary authorities globally as a tool of monetary policy. In a repo one party buys securities and enters into a simultaneous agreement to sell those securities back to the seller on a fixed date. The buyer earns a return on the cash transferred to the seller.
- **NY Fed use of repo:** The NY Fed uses repos domestically as the primary tool to implement the interest rate targets of the Federal Open Market Committee. Domestic repos are not yield transactions and any returns are incidental to the monetary policy goals of these transactions. These transactions may be contrasted with the NY Fed’s international repo operations which are designed to increase yield and generally are not used as a tool of policy implementation.
- **Industry-standard repo master agreements:** There are a number of standard master agreements for repos that address core legal issues:
 - BMA Master Repurchase Agreement:** This agreement is commonly used in the United States in connection with US Treasury and government agency security repos.

--**BMA/ISMA Global Master Repurchase Agreement:** This agreement is commonly used in the London euro sovereign repo market. Because this agreement was drafted for the London market and addresses specific English law issues it has seen limited use on the European continent and in the Tokyo market. The repo market in the latter two areas is less developed, both commercially and legally, than the market in the United States and London.

--**European Master Agreement (published by the Banking Federation of the European Union):** This recently published agreement attempts to consolidate into a single set of harmonized documents a master agreement that allows legal flexibility (choice of law, for example). The agreement is designed to accommodate repos and securities lending transactions and eventually may be revised to include many additional products (swaps, foreign exchange).

--Some countries retain repo agreements targeted for the domestic market, but these are seeing less use as cross-border documents become more prevalent.

- **Significant issues addressed by repo agreements:**

- (1) Parties' characterization of transaction: Repos have historically been analyzed legally as both secured loans and as purchases and sales of the securities subject to the transaction. Agreements allow parties to characterize their agreements consistent with their expectations.
- (2) Capacity and authority of parties: Parties provide representations that they have the legal capacity to enter the agreement and have the legal authority to fulfill their obligations thereunder.
- (3) Protections and procedures upon the insolvency or default of a counterparty.
- (4) Choice of law.
- (5) Choice of forum.
- (6) Waiver of sovereign immunity may be addressed.

- **History and specific provisions of BMA Master Repurchase Agreement** (NY Fed bases its domestic repurchase agreement for open market operations/monetary policy implementation on this market form):

- **History of the BMA form:** Repos in United States government securities had been common in the US market for a number of years but many legal aspects had never been tested until the 1980s. There were no standard industry agreements prior to the 1980s.

--A number of large dealers of US Treasury securities went bankrupt in the 1980s causing losses (not to the NY Fed) and disruptions in the US Treasury securities market. In order to address some of the issues related to this disruption, the US Congress passed the Government Securities Act of 1986 and the Bond Market Association (then the Public Securities Association) published the Master Repurchase Agreement.

--The Master Repurchase Agreement was substantially revised in 1996 to conform to market and legal changes. The current version of the BMA Master Repurchase Agreement is available at <http://www.bondmarkets.com/Market/agreements.shtml>.

- **Characterization issues, bankruptcy issues, defaults and closeout.**

--**Characterization:** Domestic US law did not recognize repos as something legally distinct from secured loans (which they resembled) or outright purchases and sales of securities (which they also resembled). The characterization was important in that, if characterized as secured loans, it was not clear whether parties were doing all that should have been done under the law to secure interests in collateral. Some entities may have had authority issues with borrowing and needed repos to be seen as purchases/sales to allow them to engage in the transactions. This is true of the NY Fed, for example. The repo agreement stressed the purchase/sale intent of the parties, and also provided a fallback if courts viewed the transactions as loans. Litigation continued and repos continue to be viewed in different ways for different purposes: accounting, tax, finance, central bank activity.

--**Bankruptcy:** The United States bankruptcy code contains specific protections for certain repo agreements. Among other things, agreements that would benefit from the protections must use US Treasury securities as collateral and mature less than 1 year from the initial purchase date.⁴

--Qualifying agreements/transactions are outside the automatic stay that is imposed by the filing of a bankruptcy petition. The automatic stay prevents creditors of the insolvent party from seeking payment from the debtor or acting without court sanction to realize on collateral. The bankruptcy exemption for repo agreements permits a nondefaulting party to exercise repo contractual remedies notwithstanding that other transactions involving the debtor

⁴ See 11 U.S.C. § 101(47) for a definition of a qualifying repo for US bankruptcy purposes.

are frozen as of the date of the filing. The Master Repurchase Agreement allows the nondefaulting party to sell securities subject to all outstanding transactions (with claims for losses/costs), purchase securities that would have been delivered but for the bankruptcy (with claims for losses/costs).

--We cannot emphasize enough how important legal certainty is in this area and the industry is constantly looking at ways to both strengthen the statutory protections and the corresponding documentary protections.

--**Events of default:** The Master Repurchase Agreement defines what constitutes a party's default (Paragraph 11: Events of Default):

--Failure to transfer funds/securities on initiation/maturity date;

--Failure to meet margin requirements on the underlying securities and income payment requirements;

--Repo agreements generally require that the securities subject to the transaction have a market value in excess of the cash amount of the transaction. The amount of excess is usually negotiated by the parties. If the value of the securities falls during the term of the transaction, the initial seller will have to make-up the shortfall with either additional securities or cash (Paragraph 4: Margin Maintenance).

--The Master Repurchase Agreement provides that during the term of a repo any interest or principal payments made on the underlying securities go to the initial seller (Paragraph 5: Income Payments).

--**Act of Insolvency:** The Master Repurchase Agreement defines what constitutes an "act of insolvency" such that the nondefaulting party may immediately exercise remedies. Note that this definition allows that third parties may begin the proceeding against the debtor, but in such a case there is a waiting period before remedies may be exercised. (Paragraph 2(a): Definitions);

--Query: What does the definition of insolvency mean for central banks?

--**Representations are materially false:** It is an Event of Default if any representation in the Master Repurchase Agreement made by a party was incorrect or untrue in any material respect when made or repeated or deemed to have been made or repeated. Note that the representations made in the Master Repurchase Agreement are deemed repeated each time a transaction is entered into under the agreement.

--**Inability to perform:** It is an Event of Default if a party admits to the other party its inability or intention not to perform its obligations under the agreement.

--**Closeout mechanism:** Upon the occurrence of an Event of Default, the non-defaulting party may declare by notice to the defaulting party that an Event of Default has occurred. Notice is not required if an Act of Insolvency has occurred. Note that the non-defaulting party has an option with respect to the declaration of defaults in the non-insolvency context. This avoids the danger of premature closeout if the failure is merely operational, for example, and is not an indication of deteriorating credit. It is a common occurrence in the New York repo market for counterparties to fail to redeliver securities, and these operational situations get resolved between the parties without triggering the default provisions. Declaration of default and closeout is considered an extreme event because the consequences to the defaulting party are grave and can cause defaults in other outstanding agreements if such agreements include cross-default and acceleration provisions. (See Paragraph 11(a)).

--The non-defaulting party may then either buy-in securities that have not been delivered (if the non-defaulting party was the repo seller), or sell-off collateral subject to the agreement (if the non-defaulting party was the repo buyer).

●**Force Majeure:** The BMA Master Repurchase Agreement does not contain a force majeure provision. The issue of force majeure has become a significant issue for drafters of market standard agreements recently as firms look to create a uniform approach to catastrophic events.

--The omission of this provision from the BMA Master Repurchase Agreement is intentional as the market convention in the United States repo market is that parties will perform under all

circumstances. However, by remaining silent on this point, the BMA agreement permits parties to rely on common law doctrines of force majeure and such doctrines may permit parties to either not perform or postpone performance of their obligations under certain circumstances. Market participants recognize that this may not reflect the intent of participants, and the agreement may be revised to include an “anti-force majeure” clause that would provide that notwithstanding events that could be categorized as force majeure, parties agree to be continually bound by their contractual obligations. Parties must also be aware that local statutory law may allow for postponement of obligations in the event authorities declare a holiday as a result of an emergency.⁵

●**Other issues:** (1) Single agreement (Paragraph 12: Single Agreement): This provision is important for bankruptcy protections and permits all transactions under the single agreement to be closed-out; (2) Governing law (Paragraph 16): New York; (3) Security interest in collateral if deemed not a purchase/sale (Paragraph 6: Security Interest). If transactions under the agreement are deemed to be loans (notwithstanding the intent of the parties) the seller of securities grants a security interest to the buyer.

●**Changes to the form:** Any provisions may be changed by agreement but care should be taken to assess how such changes affect the core issues described above (i.e., do they jeopardize the bankruptcy protections?).

● **NY Fed use of BMA form:** The NY Fed uses the BMA form as the basis of its Master Open Market Agreement covering all repo/reverse repo transactions with primary dealers. Repo transactions under this agreement are the principal method for the NY Fed to implement the policy directions of the Federal Open Market Committee.

--NY Fed changes to the market standard form address initiation of transactions (auction format), choice of law (includes US Federal law), consent to exclusive jurisdiction in New York and venue of suits.

● **Uses of Securities Holdings**

--**Securities Lending:** Many central banks (including the NY Fed) hold large portfolios of government securities. Securities lending is a common way to generate additional return on these assets.

--**The NY Fed Securities Lending Program:** Prior to 1999, the NY Fed rarely lent securities to market participants. In the interests of aiding the smooth functioning of the US government securities market, in 1999 the NY Fed implemented a formalized securities lending program that makes available a large

⁵ See, for example, N.Y. Gen. Constr. Law §24-a.

portion of the NY Fed's securities holdings on a daily basis. The purpose of the program is not to seek to generate return but to aid the smooth functioning of government securities market. (The NY Fed cares about an efficient market because, among other things, a smooth functioning market makes it easier to implement monetary policy.) The program is a "temporary and secondary source of Treasury securities to the market." The program is different from standard return-based programs in that it operates later in the day, is overnight (not term) and has a required minimum bid rate.

--Consistent with the intent that the program operate to aid the smooth functioning of the market, at the sole discretion of the NY Fed, securities lent may be limited if a particular issue is trading "special" or it appears that one dealer may be attempting to corner an issue.

--**BMA/SIA Securities Lending Agreement:** The BMA/SIA Securities Lending Master Agreement is commonly used in the United States in connection with securities lending activity. The securities lending agreement can be found at <http://www.bondmarkets.com/Markets/agreement.shtml>.

Important provisions of the standard agreement include:

--**Collateral:** The agreement describes obligations with respect to collateral for loans including collateral valuation, delivery requirements, and rights in collateral under NY Uniform Commercial Code. The agreement requires that the collateral holder must keep collateral securities segregated from its other holdings and restrict relending of collateral (unless the holder is a broker/dealer subject to regulation by the Securities and Exchange Commission or in case of default). Just as in the repo agreement for term repos (repos that extend beyond one day), parties may provide substitute collateral that meets all criteria. (Paragraph 4).

--**Rights of borrower:** Until the borrowed securities must be redelivered, the agreement grants the borrower all the incidents of ownership with respect to the securities. (Paragraph 7: Rights in Respect of Loaned Securities and Collateral).

--**Rights of Lender:** Lender receives any dividends on the lent securities during the period in which they are on loan (Paragraph 8: Distributions).

--**Margin:** Collateral is marked to market with provision for additional margin securities if value of collateral falls below a threshold. (Paragraph 9: Mark to Market).

--**Events of default:** Events of default include: (1) failure to return loaned securities; (2) failure to return collateral; (3) bankruptcy; (4) counterparty expelled from any self regulatory organization; or (5) representations

made in the agreement are materially false. (Paragraph 12: Events of Default).

--Note that just as in the BMA Master Repurchase Agreement representations are deemed to be reasserted each time the parties enter into an individual transaction under the master agreement.

--**Remedies:** Lender may liquidate collateral and buy securities that have not been delivered. Borrower may purchase collateral and sell loaned securities. (Paragraph 13: Remedies).

--**Choice of law and submission to jurisdiction:** The agreement names New York law as the law governing the agreement and the parties agree to submit to the jurisdiction of the New York courts (Paragraph 19: Applicable Law; Paragraph 23: Submission to Jurisdiction; Waiver of Jury Trial.).

• **Specific NY Fed alterations to the BMA Master Securities Loan Agreement:** The NY Fed uses the BMA agreement as the basis of its agreement but the following changes have been implemented:

--**Initiation of transaction:** The NY Fed enters into a transaction through an auction process. The NY Fed will prescribe a minimum bid rate, and will limit the amount of its portfolio available for lending.

--**Nature of acceptable collateral:** The NY Fed requires that counterparties supply only US Treasuries as collateral.

--**Margin:** Margin requirements set at sole discretion of the NY Fed.

--**Payment of fees:** The agreement explicitly grants the NY Fed the authority to debit a borrower's account at the NY Fed for any fees that may be incurred in connection with the borrowing.

--**Governing law and submission to jurisdiction:** The NY Fed uses its standard choice of law provision: the agreement is subject to US Federal law and NY law to the extent not inconsistent with Federal law. The parties submit to the exclusive jurisdiction of courts in New York City.

B. Foreign Exchange Agreements with Domestic Counterparties

• **Scope of NY Fed foreign exchange activity:** The NY Fed engages in foreign exchange transactions, limited to spot transactions, with domestic counterparties in order to implement the exchange rate policies of the United States government and the Federal Reserve.

• **Foreign exchange activities on behalf of other central banks:** The NY Fed also engages in foreign exchange transactions on behalf of central banks and monetary authorities that maintain accounts with the NY Fed. The NY Fed enters into these transactions with dealers as principal and executes a single master agreement with the dealers covering both NY Fed transactions and transactions on behalf of NY Fed customers. Dealers do not know when the NY Fed is operating on behalf of a customer central bank.

• **The NY Fed's Agreement:** The NY Fed uses the International Foreign Exchange Master Agreement ("IFEMA") as the basis for its agreement with domestic counterparties. Given that the NY Fed's FX transactions are limited to spot transactions, it has no need for agreements that support a broad array of FX products, for example, the ISDA Master Agreement or the International Foreign Exchange and Options Master Agreement.

• **IFEMA:** The IFEMA is sponsored and published by the Foreign Exchange Committee (a committee composed of senior private sector FX market professionals sponsored the NY Fed), the British Bankers' Association, the Canadian Foreign Exchange Committee and the Tokyo Foreign Exchange Market Practices Committee. The Committees are assisted in the drafting of the agreements by the Financial Markets Lawyers Group, a group of senior private sector lawyers active in FX markets sponsored by the NY Fed ("FMLG"). The IFEMA was most recently revised in 1997, and reflects best market practice and risk mitigation techniques.

-- **Scope of IFEMA:** The IFEMA sets the core terms under which a trading relationship is maintained and provides documentation for specific risk reduction mechanisms. Broadly, the IFEMA covers the scope of the FX transactions (which offices can enter into transactions, limits), how transactions are confirmed, settlement and netting (both payment netting and close-out netting), events of default and implementation of closeout, and the impact of force majeure, act of state and illegality and impossibility.

--**Default and closeout:** The most significant risk reduction provision of the IFEMA lies in the default/closeout mechanism. Events of Default are described by the agreement as a failure to pay when due, voluntary or involuntary insolvency, and defaults on other specified indebtedness (see Paragraph 1: Definitions). The mechanism of closeout allows a counterparty to net down its exposure to a failing counterparty across all transactions entered into under the agreement. The nondefaulting counterparty then either owes a single net sum or is owed a single net sum. (Paragraph 5 of the IFEMA describes the mechanism of closeout and the legal consequences [i.e., discharge of obligation to perform

under the contract] with respect to the obligations of the parties under the agreement.)

--**Legal Opinions:** The efficacy of the closeout netting arrangements in insolvency are the subject of legal opinions obtained by the FMLG (and updated annually) in over 30 jurisdictions around the world. These opinions generally state that the provisions regarding closeout will be respected in insolvency proceedings in that jurisdiction. These opinions are important for banking institutions in that they are required to allow the institution to claim favorable capital treatment based on the net, rather than gross, exposures. The list of jurisdictions from which opinions have been obtained can be found at <http://www.newyorkfed.org/fmlg/opinions.html>.

--**Settlement Netting:** The IFEMA permits settlement netting between parties that owe each other amounts in the same currency. This procedure allows parties to net down their daily obligations in a particular currency. The gross amounts due of a particular currency from each party are aggregated and compared. The party with the larger aggregate amount outstanding is then required to remit only the difference between the two aggregate amounts. Thus, parties limit their settlement exposures by having smaller amounts due them and smaller amounts due to their counterparties each day (Paragraph 3: Settlement and Netting).

--**NY Fed changes to the market standard form:** The standard form IFEMA contains a waiver of sovereign immunity, but the NY Fed does not include this waiver. The NY Fed alters the choice of law and submission to jurisdiction in order to be consistent with the clauses contained in its other agreements.

C. Outsourcing settlement/operational aspects of open market operations:

- **NY Fed use of triparty repo:** The NY Fed maintains custody accounts with the Bank of New York (“BONY”) and JP Morgan Chase (“JPMC”) for its domestic open market operations in repo. In addition to maintaining accounts with BONY and JPMC, both BONY and JPMC act as the NY Fed’s agent with respect to settlement and valuation of collateral.

- **Role of Triparty agent:** The triparty agents perform only ministerial settlement and valuation functions and perform no investment advisory functions. The NY Fed retains complete discretion as to its transactions and acceptable collateral. The triparty arrangement is operationally efficient for both the NY Fed and its counterparties in the market as triparty repo is a common repo method in the US and allows counterparties to use their collateral efficiently.

• **Issues with custodians/Triparty agent:** The triparty agreement:

- (1) sets the standard of care for the custodian and any indemnities that may be required. Commonly custodians seek to receive indemnification for all losses incurred so long as they meet their minimum standard of care;
- (2) provides guidance as to the custodian's behavior in the event of counterparty insolvency;
- (3) provides a clear and specific description of acceptable collateral (generally the agreement should allow no discretion on part of custodian);
- (4) provides for settlement timing (the NY Fed requires that its accounts be filled earlier in the day than market practice in order to permit more robust review of our account statements); and
- (5) provides for monitoring of custodian compliance through daily reporting.

• **NY Fed Securities Lending Program:** Settlement, valuation and maintenance of the NY Fed's securities lending program is not done through a third-party agent. The NY Fed manages all these functions in-house.

III. Investment of Foreign Currency Reserves:

• **NY Fed holdings in non-dollar currencies:** The NY Fed maintains the majority of its non-dollar currency reserves in euro and yen. Limited amounts of other currencies are also held to facilitate smaller transactions on behalf of customers.

• **Investment of non-dollar reserves:** Generally, these funds are invested in deposits at central banks and the BIS, certain sovereign debt securities, and through repos. Unlike the use of reserve funds in the domestic market, these non-dollar funds are invested to increase yield and not to implement specific monetary policy goals. Investments are chosen with a view towards safety and liquidity should the funds be needed to meet policy goals.

--**Non-US sovereign debt securities:** The NY Fed buys sovereign debt of a number of European sovereigns and Japan.

--**Choice of sovereign:** Determination to purchase a particular sovereign instrument is based on currency (must be denominated in euro or yen), rating, and liquidity of market.

--**Euro triparty repo:** The NY Fed invests euro balances in the London triparty repo market with Euroclear acting as triparty agent. NY Fed counterparties in the repo transactions are large internationally active private banks.

--**NY Fed's form of repo agreement:** The NY Fed enters into a form of the BMA/ISMA Global Master Repurchase

Agreement with each repo counterparty and a Euroclear Triparty Service Agreement with Euroclear and each counterparty.

--**NY Fed changes to the standard form:** The NY Fed requires particular changes to the consent to jurisdiction and waiver of sovereign immunity clauses commonly found in international agreements. It is NY Fed practice not to waive any sovereign immunity protections that it may have. Arrangements with Euroclear are made as well to ensure that the NY Fed does not, except on an exceptional basis, have funds on deposit with Euroclear on an overnight basis. This is done both for authority reasons and for credit considerations so that overnight exposure to the clearing bank is minimal.

--**Legal protections:** The NY Fed's legal practice is to seek legal opinions from local counsel in the jurisdictions in which it holds assets as to the enforceability of its contractual arrangements as well as with respect to other important issues such as sovereign immunity.

IV. Discussion of Foreign Central Bank agreement for investments at FRBNY

• **Investment of dollar reserves by central banks:** Central banks with dollar reserves to invest have a number of options: management by private banks, retention of management by the central bank with overseas custodial/triparty relationships, or investment with NY Fed.

--**Private management of reserve assets:** Management by private banks allows central banks to invest in a number of sophisticated products and derivative instruments. These investments can be documented on any of the standard market forms (most prominently the ISDA Master Agreement, BMA Master Repurchase Agreement, BMA Master Securities Loan Agreement).

--**Investment advisory relationship:** Care should be taken that any investment advisory relationship is documented appropriately and precisely, and clearly describes the functions of the advisor/manager, the possible investments with explicit limitations if any are required, the authority of both the central bank and the advisory/manager to engage in the contemplated transactions, and indemnities.

--**Use of benchmarks:** Consideration should be given to including benchmarks for performance with both an expected minimum return and a maximum allowed return.

--**Foreign Sovereign Immunity Act:** Local US legal counsel should provide advice as to whether the activities contemplated by the arrangement cause the central bank to lose any protections that it might have under the Foreign Sovereign Immunities Act. As central banks move toward more sophisticated market instruments they should be aware of the risk posed to their status as they look more and more like private commercial market participants with a primary purpose of generating return.

--**Retention of management:** Central banks could retain management of their dollar reserves, but employ a custodian/agent for settlement and valuation duties. This could likely be done in the repo market and in the securities lending market. The applicable agreements for these instruments have been described above.

--**Custodial Risk:** Central banks should be aware of the risk associated with holding assets at a third party custodian. Central banks will need to understand through consultation with local counsel the consequences to their assets upon the insolvency of the custodian. The documentation should clearly state the responsibilities of the custodian and the remedies available to the central bank. Central banks should also be aware of the local laws and rules with respect to attachment of custodial property.

--**Investments with the NY Fed:** The NY Fed offers central banks a number of investment vehicles. These are described in our account documentation. The NY Fed generally will act as the agent for central banks in a number of market transactions and will act as principal with respect to other investments.

--**Investment in US government securities:** The NY Fed will maintain a funds account for central banks and upon instructions will purchase or sell United States Government and certain Federally sponsored agency securities.

--**Repo pool:** The NY Fed will invest a central bank's funds, up to a mutually agreed upon amount, in a facility whereby funds are aggregated with funds of other central banks for the purpose of participating in a pool of United States Government and Federally-sponsored agency securities subject to repurchase by the Federal Reserve. Central banks thus hold an obligation of the Federal Reserve backed by such securities.

--**Fed funds:** The NY Fed will also act as a central bank's agent to invest, in amounts of \$1 million or more, funds received too late in the day for normal investment. Such funds will be aggregated with funds of other central banks for the purpose of participating in a placement pool on an overnight or weekend basis with one or more of the twenty largest United States commercial banks. The central bank holds an interest in an unsecured obligation of the purchasing banks. There is no written agreement between the placement banks and the NY Fed; instead, the parties rely on well-developed market convention with respect to these funds.

--**Custody account:** The NY Fed will also act as custodian of securities and other instruments.

--**Indemnities and standard of care:** The standard central bank account agreement provides for an indemnity for the NY Fed with an ordinary care standard. The agreement also requires that the services performed thereunder related to property held or to be held by you as a central bank or monetary authority for your account.

--**NY Fed's actions to prevent attachment:** The NY Fed will coordinate with a central bank customer, if the central bank has not waived immunity, to enforce all of the central bank's rights under the Foreign Sovereign Immunities Act, and under other law.