Vanguard®

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June 16, 2010

Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045

Re: Request for Comments: Tri-Party Repo Infrastructure Reform

The Vanguard Group, Inc. ("Vanguard") appreciates the opportunity to respond to the questions posed by The Federal Reserve Bank of New York ("FRBNY") in its May 17, 2010 white paper on Tri-Party Repo Infrastructure Reform. As an active participant in the repo market on behalf of the Vanguard Funds, Vanguard supports FRBNY and the Tri-Party Repo Infrastructure Task Force in their efforts to identify and address concerns about the weaknesses of the tri-party repo market that became visible over the course of the financial crisis. Vanguard believes that the recommendations of the Task Force, if implemented, will represent significant progress in the mitigation of the systemic risk potential within the tri-party repo market.

FRBNY requested comment on what additional measures should be considered to address concerns regarding potential liquidity pressures on cash lenders and surviving dealers, and the potential for "fire sale" conditions, considering a dealer default scenario. We urge FRBNY to balance the need for stability in the financial markets with the need of cash investors to meet their liquidity requirements when considering measures to conduct an orderly liquidation of collateral used to secure tri-party repos in the event of dealer default. Cash investors must be certain that they can quickly take control of their collateral and, if necessary, begin the liquidation process immediately.

The increased use and augmentation of risk management practices currently employed by money market funds may help prevent "fire sales" of assets that may occur following a default. For example, money market funds routinely adjust exposures to issuers and counterparties as financial conditions evolve. Further, as suggested by FRBNY and the Task Force, cash investors can require higher margins on collateral when market volatility rises. Finally, investors can specify that trades be collateralized with only the highest quality collateral – such as U.S. Treasury securities – which tend to perform more consistently in volatile markets. While money market funds can not prevent "fire sale" like conditions in the event of a major dealer default, they can and do take precautions to insulate their shareholders from the effects of adverse market events.

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We commend FRBNY and the Task Force in their efforts to identify and address concerns about the current challenges in the tri-party repo market and we appreciate the opportunity to comment on the proposals. If you have any questions about Vanguard's comments or would like any additional information, please contact David Glocke at (610) 669-5433.

Sincerely,

/s/ Vanguard