

Improving Risk Management and Increasing Clearing in U.S. Treasuries



On Dec. 13, 2023, the Securities and Exchange Commission [adopted rule amendments](#) that will:

- Require covered clearing agencies that provide central counterparty services for U.S. Treasury securities to have policies and procedures to require their direct participants to submit for clearing certain eligible secondary market transactions;
- Require that covered clearing agencies for U.S. Treasury securities have policies and procedures to calculate, collect, and hold margin for their direct participants' proprietary transactions separately from transactions submitted on behalf of indirect participants;
- Require covered clearing agencies for U.S. Treasury securities to have policies and procedures to ensure that they have appropriate means to facilitate access to clearance and settlement services of all eligible secondary market transactions, including those of indirect participants; and
- Amend the broker-dealer customer protection rule to permit margin required and on deposit at a covered clearing agency for U.S. Treasury securities to be included as a debit item in the customer reserve formula, subject to certain conditions.

The Commission [proposed the amendments](#) on Sept. 14, 2022. The public comment file is [available online](#).

Why This Matters

A clearing agency that serves as a central counterparty can help increase the safety and efficiency of securities trading, reduce costs, and mitigate the potential for a single market participant's failure to destabilize other market participants or the financial system. Central clearing also addresses concerns about counterparty risk by substituting the clearing agency's liquidity and creditworthiness for each counterparty. The U.S. Treasury market plays a unique role in the U.S. and global economy, as an investment instrument and hedging vehicle, a risk-free benchmark for other financial instruments, and a mechanism for the Federal Reserve's monetary policy implementation.

How the Rules Apply

The rule amendments impose requirements on covered clearing agencies providing central counterparty services for U.S. Treasury securities. First, a covered clearing agency will be required to have policies and procedures designed to require its direct participants to submit

for clearing all eligible secondary market transactions. Eligible secondary market transactions include:

- All repurchase and reverse repurchase agreements (“repos”) collateralized by U.S. Treasury securities to which a direct participant is a counterparty;
- All purchases and sales of U.S. Treasury securities by direct participants who are acting as interdealer brokers; and
- All purchases and sales of U.S. Treasury securities between a direct participant and a registered broker-dealer and a government securities dealer or broker.

Eligible secondary market transactions do not include purchase or sale transactions or repurchase or reverse repurchase agreements in which one counterparty is a central bank, a sovereign entity, an international financial institution, or a natural person. Eligible secondary market transactions that are repos do not include those between a direct participant and either a state or local government or another clearing organization or those that are the direct participants’ inter-affiliate transactions.

The amendments also require covered clearing agencies to have policies and procedures to calculate, collect, and hold margin for a direct participant’s proprietary positions in U.S. Treasury securities separately from margin posted by that participant in connection with U.S. Treasury securities transactions by an indirect participant. Further, the amendments require a covered clearing agency to have policies and procedures to ensure that it has appropriate means to facilitate access to clearance and settlement services of all eligible secondary market transactions, including those of indirect participants, with such policies and procedures reviewed by the covered clearing agency’s board of directors annually.

Prior to these amendments, the broker-dealer customer protection provisions in Exchange Act Rules 15c3-3 and 15c3-3a did not permit broker-dealers to include a debit in the customer reserve formula equal to the amount of margin required and on deposit at a covered clearing agency for U.S. Treasury securities. Therefore, increases in the amount of margin required to be deposited at a covered clearing agency for U.S. Treasury securities as a result of the amendments would result in corresponding increases in the need to use broker-dealers’ cash and securities to meet these requirements.

The amendment to Rule 15c3-3a permits margin required and on deposit at a covered clearing agency for U.S. Treasury securities to be included as a debit item in the customer reserve formula, subject to certain conditions designed to ensure maximum protection of a broker-dealer’s customers. This new debit item will offset credit items in the Rule 15c3-3a formula and, thereby, free up resources that could be used to meet the margin requirements of a covered clearing agency.

What’s Next

The amendments regarding changes to improve covered clearing agencies’ risk management practices, protection of customer assets, and access to clearance and settlement services have a compliance date of March 31, 2025. After that time, compliance by the direct participants of a U.S. Treasury securities covered clearing agency with the requirement to clear eligible secondary market transactions will be required by December 31, 2025, and June 30, 2026, respectively, for cash and repo transactions.