

Increasing Clearing in U.S. Treasuries Regulation



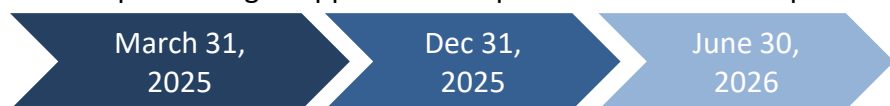
Summary of SEC Rule Amendments

Regulation Overview

The SEC has observed that the proportion of U.S. Treasury security transactions in the cash and repo market that are centrally cleared has declined over the past years. So, the SEC is adopting rule amendments that requires direct participants of covered clearing agencies (“CCAs”) for U.S. Treasuries to submit for clearing certain “eligible secondary market transactions”. Currently there is only one U.S. Treasury securities CCA that clears eligible secondary market transactions which is Fixed Income Clearing Corporation (FICC).

Compliance Dates

SEC adopted a staged approach to implementation and compliance:



Requirements for CCAs to facilitate clearing access, & develop margin processes.

Direct participants of CCAs to clear eligible secondary market transactions as of Dec 31, 2025, and June 30, 2026, respectively, for cash & repo transactions.

Regulatory Objectives

The SEC believes that promoting the prompt and accurate clearance and settlement of U.S. Treasury securities transactions would provide several benefits to the U.S. Treasury securities market, such as the following:

- ① Decreasing the overall amount of counterparty credit risk in the secondary market for U.S. Treasury securities;
- ② Helping avoid a disorderly member default that could destabilize the financial system as CCPs provide centralized default management;
- ③ Reducing operational and liquidity risks, among others, by increasing the multilateral netting of transactions in these instruments;
- ④ Improving U.S. Treasury market structure by, for example, narrowing spreads due to decreased counterparty credit risk; and
- ⑤ Enhancing regulatory visibility in the U.S. Treasury market.

Summary of the Four Rules Being Amended

Rules Being Amended:	Details of the Amended Rule Requirements:	Compliance Dates:
Rule 17ad-22(e)(18)(iv)(A) and (B)	Requirement for <u>direct participants of CCAs</u> of the U.S. Treasury market to submit for clearance and settlement certain “ <u>eligible secondary market transactions</u> ”, both for <u>repos</u> and certain categories of <u>cash transactions</u> .	Cash: Dec 31, 2025 Repos: June 30, 2026
Rule 17ad-22(e)(6)(i)	Requirement for CCAs to calculate, collect, and hold <u>proprietary margin</u> separate from <u>customer margin</u> ;	March 31, 2025
Rule 17ad-22(e)(18)(iv)(C)	Requirement for CCAs to facilitate <u>access to clearing services</u> of all eligible secondary market transactions in U.S. Treasuries, including those of indirect participants;	March 31, 2025
Rule 15c3-3	Permit margin required and on-deposit at CCAs for cleared U.S. Treasury transactions to be included by broker-dealers as a debit in the customer and proprietary accounts of broker-dealer (“PAB”) reserve formulas	March 31, 2025

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Details of SEC Rule Requirements

Definition of “Eligible Secondary Market Transactions”

The rule requires clearing of eligible secondary market transactions for any security issued by the U.S. Department of the Treasury, which includes the following types of transactions:

- ① All repurchase and reverse repurchase agreements (“repos”) collateralized by U.S. Treasury securities to which a direct participant of a CCA is a counterparty;
- ② All purchases and sales of U.S. Treasuries by direct participants of a CCA who are acting as interdealer brokers; and
- ③ All purchases and sales of U.S. Treasuries between a direct participant and a counterparty that is a registered broker-dealer, government securities broker, or government securities dealer.

The following are exclusions from the definition of eligible secondary market transactions:

- Cash or repo transactions in U.S. Treasuries in which one counterparty is a central bank, a sovereign entity, an international financial institution, or a natural person;
- Any repo collateralized by U.S. Treasuries in which one counterparty is a CCA acting as a CCP or derivatives clearing organization (DCO), or is regulated as a CCP in its home jurisdiction;
- Any repo collateralized by U.S. Treasury securities in which one counterparty is a state or local government; and
- Any repo collateralized by U.S. Treasury securities entered into between a direct participant and an affiliated counterparty.

Requirement for the Separation of House and Customer Margin

The rule requires CCAs to establish a risk-based margin system to cover its credit exposures to its participants. The CCA must calculate, collect, and hold margin amounts from direct participants for their proprietary positions in U.S. Treasuries separately and independently from the transactions submitted by direct participants on behalf of their clients who are clearing as indirect participants.

Requirement for Access to Clearing and Monitoring of Compliance

The SEC requires CCAs to establish objective, risk-based, and publicly disclosed criteria for participation, which:

- ① Permit fair and open access by direct and, where relevant, indirect participants and other financial market utilities;
- ② Require participants to have sufficient financial resources and robust operational capacity to meet obligations arising from participation in the clearing agency;
- ③ Require CCAs to monitor rule compliance with such participation on an ongoing basis; and
- ④ When the CCA provides central counterparty services for transactions in U.S. Treasury securities,
 - Requires direct participants to submit for clearing all of their eligible secondary market transactions;
 - Requires CCAs to monitor its direct participants’ rule compliance regarding the submission of transactions for clearing;
 - Requires that CCAs have the appropriate means to facilitate access to clearance and settlement services of all eligible secondary market transactions in U.S. Treasury securities, including those of indirect participants.

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