



**ISDA Treasury Clearing Panel
February 25, 2025**

**Welcoming Remarks
Scott O'Malia
ISDA Chief Executive Officer**

Good afternoon and welcome to this ISDA panel on US Treasury clearing. Thanks for joining us today for what I'm sure will be a very insightful discussion.

There is something a little incongruous about meeting here in Frankfurt to talk about a regulation that originates several thousand miles away in Washington. You'd expect an event like this to focus on EMIR or MIFID, rather than the Securities and Exchange Commission (SEC) and the US Treasury market. But these reforms have truly global significance, and the impact will be felt around the world, including here in Europe.

I've often referred to the Treasury market as the oil that keeps the wheels of global finance turning. With outstanding issuance of nearly \$30 trillion, this is the world's most systemically important market, and its deep liquidity and resilience attract public- and private-sector investors around the world. It underpins the secured dollar funding market globally and serves as collateral for a significant volume of derivatives transactions.

Given the widespread reliance on US Treasuries, it's critical that any changes to the market structure are implemented at an appropriate pace to avoid unintended consequences.

It's been more than a year since the SEC finalized its planned reforms in December 2023, and the deadlines are fast approaching. At the end of this year, clearing will become mandatory for certain cash Treasury securities, with repos due to follow from June 30, 2026. Work is well underway to prepare for this transition, but there are significant legal, operational and capital issues that must be resolved before clearing can be effectively implemented. In these remarks, I'll briefly explore those issues and explain why the timelines must be revisited.

But first, let me tell you why this should matter to non-US entities. The SEC rules compel clearing agencies to adjust their policies and procedures to require members to clear the relevant products by the prescribed deadline. This includes trades conducted by those member firms or their branches with any counterparty, including those based outside the US. Given the Fixed Income Clearing Corporation (FICC) has about 200 direct members, including non-US banks, we expect the number of in-scope entities around the world to run into the thousands.

In short, if you trade cash US Treasury bonds or repos, irrespective of whether you're based in Washington, DC or Warsaw, you'll likely be in scope.

Clearing houses are working hard to prepare for the rules. FICC published proposed changes to its rule book last year, while CME Group recently published proposals for a new clearing service. ICE has also announced it will launch a Treasury clearing service. To assist the market, ISDA has published a comparison of various clearing models for US Treasury transactions and derivatives, which we'll update as new models emerge.

In tandem with this work, the Securities Industry and Financial Markets Association (SIFMA) is leading an industry group that's making steady progress in developing appropriate documentation. However, this documentation needs to reflect the various clearing models and rule books that are still being developed, as well as client segregation solutions, some of which haven't been finalized and tested.

Dealers will then need to execute the new documents with thousands of counterparties, as well as obtain netting opinions to ensure efficient capital treatment.

We know from the implementation of the margin rules for non-cleared derivatives that this is a huge amount of work, and it will take a lot of time. Remember: the margin rules were phased in over a six-year period. Under current SEC rules, everyone would come into scope at once in a very compressed time frame. We think this is extremely unrealistic.

Alongside these operational challenges, some regulatory and capital issues need to be resolved to ensure Treasury clearing can proceed smoothly, without hurting market depth and liquidity.

The treatment of cross-product netting is one. FICC and CME Group offer cross-margining at the clearing-member level to enable initial margin efficiencies from offsetting trades in a portfolio of cash, repo and futures transactions. But there's no recognition in the US capital framework for corresponding cross-netting across derivatives and repo trades. Unless this is resolved, it will constrain bank balance sheets and limit their ability to offer client clearing.

ISDA has been exploring this issue in partnership with FIA, and we'll continue to emphasize the need for improved recognition of cross-product netting in the US capital framework.

Another issue is the US supplementary leverage ratio (SLR), which acts as a non-risk-sensitive binding constraint on banks that can impede their ability to act as intermediaries, including their capacity to offer client clearing

Last year, ISDA wrote to US prudential regulators to make the case for targeted reforms to the SLR framework to remove impediments for banks to participate in the US Treasury market. We would welcome an industry consultation to determine the best way forward, and we were pleased to hear Federal Reserve chair Jerome Powell acknowledge in testimony to the House Committee on Financial Services earlier this month that changes are necessary.

A third issue is continued uncertainty about the final shape of the US Basel III endgame rules and the surcharge for global systemically important banks (G-SIBs). Based on analysis conducted by ISDA and SIFMA last year, these two sets of proposals would increase capital for

client clearing businesses at US G-SIBs by an astonishing 80%. This is an unnecessary tax on clearing that is out of proportion with risk and would bring the economic viability of client clearing businesses into question.

These regulatory issues must be ironed out before the introduction of Treasury clearing to maintain deep, liquid markets and ensure the continued smooth functioning and resilience of the US Treasury market. Having legal and operational certainty on pending implementation issues, as well as clarity on the related capital treatment, is a fundamental prerequisite for any successful US Treasury clearing mandate. This will take time, and time is running out.

Mandatory clearing is going to be a transformational change for the US Treasury market. But there are no short cuts. Given all the issues that still need to be resolved, we joined other trade associations earlier this year to call for at least a one-year delay in the implementation deadlines.

As I said at the start, this is a topic of global importance and events like these will be critical in raising awareness and thrashing out the key issues. We're fortunate to have a great panel of experts to unpack the issues, and I'm looking forward to hearing their insights on this important topic.

Thank you.