



Economically Efficient Treasury Clearing: Client Cross-margining and Cross-product Netting

The Securities and Exchange Commission's (SEC) Treasury clearing mandate will significantly increase the volume of cleared US Treasury security cash and repo transactions. To address this increase, a bank affiliate facilitating client access to clearing may seek to:

- Take advantage of client cross-margining arrangements to achieve margin and related funding efficiencies across cleared US Treasury securities and futures transactions; and
- Use cross-product netting agreements with clients to effectively reduce risk.

ISDA, FIA and the Securities Industry and Financial Markets Association (SIFMA) understand that CME Group and the Fixed Income Clearing Corporation (FICC) are working together to operationalize a client cross-margining arrangement. The SEC and the Commodity Futures Trading Commission (CFTC) are considering steps required to ensure this arrangement is accessible to market participants and the US banking agencies (the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency) are focused on ensuring it is capital efficient. The associations applaud these efforts and encourage the relevant stakeholders to complete all the necessary steps well in advance of the deadlines for the SEC's clearing mandate.

Client Cross-margining

Cross-margining is necessary to ensure the amount of initial margin posted reflects the actual risk of a portfolio of trades, which, in turn, increases efficiency and reduces unnecessary clearing costs. Historically, CME Group has cleared Treasury futures and FICC has cleared Treasury security cash and repo transactions. As part of these services, the two clearinghouses currently offer cross-margining to clearing members that clear both products on a proprietary basis.

It is now critical that CME Group and FICC finalize the details of their client cross-margining arrangement, and the SEC and CFTC act quickly to approve it. To achieve this, FICC needs to file a request with the SEC for an order granting conditional relief to eligible participants on the treatment of client collateral under SEC Rule 15c3-3 and the Securities Investor Protection Act. Similarly, CME Group needs to file a request with the CFTC for an order approving the arrangement and potentially addressing the Commodities Exchange Act Section 4d segregation. The content of these orders depends on how client margin will be held under the cross-margining arrangement¹.

The associations understand the cross-margining arrangement will require clients to clear through a dually registered futures commission merchant (FCM)/broker-dealer that is a member at both FICC and CME Group, so now is the time for clients to ensure they have such a clearing relationship in place. Once set up, clients should begin working with their FCM/broker-dealer and the clearinghouses to set up a new account for cross-margining, complete required agreements and test workflows.

Cross-product Netting Under the Capital Framework

Cross-margining is not enough to ensure economic efficiencies for client clearing. Without recognition of corresponding cross-product netting across derivatives and repo trades under the standardized approach for counterparty credit risk (SA-CCR) calculation, FCMs/broker-dealers that are affiliated with a bank will face higher capital requirements due to increased exposures combined with reduced margin posted by clients under the cross-margining program.

¹ CME Group and the Fixed Income Clearing Corporation issued press releases on the client cross-margining program, available at www.cmegroup.com/media-room/press-releases/2025/2/24/cme_group_and_dtcc_to_enhance_existing_cross_margining_arrangement_text.html and www.dtcc.com/news/2025/february/24/cme-group-and-dtcc-to-enhance-existing-cross-margining-arrangement

In this scenario, the FCM/broker-dealer would either require a customer to post the full amount of margin – foregoing the benefits of a cross-margining program – or face a significant increase in capital requirements, which the FCM/broker-dealer may reflect in clearing fees or pricing. Higher capital requirements would also reduce an FCM/broker-dealer’s balance sheet capacity to facilitate the clearing of US Treasury securities at a time when cleared volumes are expected to increase dramatically.

ISDA, FIA and SIFMA have proposed a potential fix that involves treating Treasury repos as forward-settling interest rate derivatives and determining the exposure at default of a portfolio of repos and derivatives contracts subject to a qualifying cross-product master netting agreement under SA-CCR². This is a relatively simple solution that, together with the approval of client cross-margining programs, will make it much more efficient for clients and their bank-affiliated FCMs/broker-dealers to clear increased volumes of Treasury securities.

Banking regulators should propose and finalize amendments to the capital framework reflecting this fix well in advance of the deadlines for the SEC’s clearing mandate, so banks have time to update their regulatory capital compliance frameworks and understand the balance sheet impacts of clearing for additional clients. As banking regulators consider the required amendments, clients and their FCMs/broker-dealers should ensure their client clearing agreements and related legal documentation allow netting across futures and cleared Treasuries. These documents may take a variety of forms provided they ultimately result in a qualifying cross-product master netting agreement³.

² Cross-product Netting Under the US Regulatory Capital Framework, www.isda.org/2025/04/04/cross-product-netting-under-the-us-regulatory-capital-framework/

³ Today, qualifying cross-product master netting agreements come into play for banks using internal models, but the proposed fix would apply under the standardized approach for counterparty credit risk as well

ABOUT ISDA

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 76 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In

addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on [LinkedIn](#) and [YouTube](#).

ABOUT FIA

FIA is the leading global trade organization for the futures, options and centrally cleared derivatives markets, with offices in Brussels, London, Singapore and Washington, DC. FIA's mission is to support open, transparent and competitive markets; protect and enhance the integrity of the financial

system; and, promote high standards of professional conduct. FIA's membership includes clearing firms, exchanges, clearinghouses, trading firms and commodities specialists from about 50 countries, as well as technology vendors, law firms and other professional service providers.

ABOUT SIFMA

SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the US and global capital markets. On behalf of our industry's nearly 1 million employees, we advocate for legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry

coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, DC, is the US regional member of the Global Financial Markets Association (GFMA).