Deloitte.

Center *for* Regulatory Strategy US

SEC announces US Treasury clearing Final Rule

On December 13, 2023, the Securities and Exchange Commission (SEC) approved a Final Rule which will require firms to begin centrally clearing eligible trades in Treasury securities by the end of 2025 and repurchase agreement (repo) transactions by June 2026.[1] The Proposed Rule was introduced in Fall 2022 to address risks associated with market volatility and liquidity problems, and SEC Chairman Gary Gensler stated that the new rule will "reduce risk across a vital part of our capital markets in normal times and stress times."[2] This rule is part of a package of reforms to the Treasury market that will have a significant impact.

Insights you should know

- Covered clearing agencies (CCAs) must:
  - A. "Adopt policies, & procedures that require members to submit specified secondary market transactions for clearing, including:
    1. all repurchase and reverse repurchase agreements collateralized by US Treasury securities entered into by a member of the covered clearing agency, unless the counterparty is a state or local government or another clearing organization or the repurchase agreement is an inter-affiliate transaction
    2. all purchase and sale transactions entered into by a member of the clearing agency that is an interdealer broker (IDB)
    3. and all purchase and sale transactions entered into between a clearing agency member and either a registered broker dealer, a government securities broker, a government securities dealer"[1]
  - B. Collect and calculate margin for house and customer transactions separately
  - C. Maintain and update policies and procedures to facilitate access to central clearing, including for indirect participants
- 15c3-3(a): To offset the increased margin requirements for direct and indirect CCA participants as a result of the Final Rule, the SEC has announced changes to the customer reserve formula outlined in SEC Rule 15c3-3(a). Broker-dealers must now include customer margin required and on deposit at a CCA in the US Treasury market as a debit in the customer reserve formula, subject to certain conditions, thereby freeing up the broker-dealer's cash and securities to meet their margin obligations at the CCA.
- Exemptions: While the SEC is implementing the Final Rule to increase the volume of Treasurys clearing and settling via central netting and novation, there will be a number of exemptions offered for transactions in which the counterparty is a central bank, sovereign entity, international financial institution, or natural person.
- Implementation deadlines: These amendments will be phased and go into effect pursuant to the following dates:
  - A. March 31, 2025: Changes regarding the separation of house and customer margin, the broker-dealer customer protection rule (15c3-3(a)), and access to central clearing required
  - B. December 31, 2025: Eligible secondary market transactions must be submitted through netting
  - C. June 30, 2026: Cash and repurchase transactions collateralized by US Treasurys

[1] https://www.sec.gov/files/rules/final/2023/34-99149.pdf

[2] https://www.sec.gov/news/press-release/2023-247

Considerations to evaluate

- Margin management: Firms will be required to handle customers margin for US Treasury Securities differently, resulting in a significant transformational effort for direct participants. CCAs must implement separate margin requirements for direct participants' proprietary positions, whose margin requirements are stricter for the clearing agency's own trades than transactions on behalf of indirect participants. However, the SEC recognizes the need for flexibility, allowing lower margin requirements for certain client trades to offset an expected increase elsewhere across the Treasury ecosystem.
- Customer reserve calculation relief: Broker-dealers can now utilize margin deposited at a CCA as a debit item in the customer reserve calculation, freeing up cash and securities to meet these new obligations at CCAs. The SEC included this to lower the financial burden on participants who will be required to post additional margin and remains consistent with the treatment of the margin posted at other CCAs in the Customer Reserve Formula.
- Incremental change: The required changes laid out in the Final Rule have staggered implementation deadlines to allow firms to more effectively manage the transition in lieu of one deadline for all in-scope transactions and changes as laid out in the rule.
- Indirect participant access: CCAs will need to maintain policies & procedures to promote indirect participants submitting their trades for central clearing alongside the transactions of direct participants. This is not only a new procedural mandate for participants, but also a new financial burden for indirect participants to manage and factor into their operating costs as they may now need to establish relationships with direct participants to meet the new clearing mandate.
- Operational changes: Direct participants must adapt their systems and processes to handle separate margin calculations and increased clearing activity. Indirect participants will need to prepare for submitting trades into clearing, which may be a new process for some market participants. While this is a significant burden for firms, these changes and an increase in trades submitted through clearing will decrease risk throughout the market for this important element of global capital markets.

Contacts

George Black
Principal | Deloitte & Touche LLP
geblack@deloitte.com

Andrew Kisz
Senior Manager | Deloitte & Touche LLP
akisz@deloitte.com

Henry Bourn
Manager | Deloitte & Touche LLP
hbourn@deloitte.com

Deloitte Center for Regulatory Strategy, US

Irena Gecas-McCarthy
Principal | Deloitte & Touche LLP
igecasmccarthy@deloitte.com

Joshua Uhl
Managing Director | Deloitte & Touche LLP
juhl@deloitte.com

Meghan Burns
Manager | Deloitte Services LP
megburns@deloitte.com