

## Statement

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# Statement on Standards for Covered Clearing Agencies for U.S. Treasury Securities and Application of the Broker-Dealer Customer Protection Rule With Respect to U.S. Treasury Securities



Commissioner Mark T. Uyeda

**Sept. 14, 2022**

U.S. Treasury securities serve as a foundation and key linkage in both domestic and international financial markets. The U.S. Treasury market is the deepest and most liquid government securities market in the world.  
[\[1\]](#)

Treasury securities are used by a wide range of market participants, including seniors on a fixed income building their retirement portfolios and foreign governments investing their U.S. dollar reserves. For instance, market participants use Treasury securities as investment hedges, in portfolio construction to generate stable low risk returns, and in interest rate investment-based strategies.[\[2\]](#)

Treasury securities are also the primary means of financing our ever-expanding federal deficit. The Treasury market, however, experienced significant stresses in recent years, including the September 2019 repo pressures and the March 2020 pandemic-related “dash for cash.”[\[3\]](#)

Since the late 1980s, central clearing for Treasury security transactions in the cash market have existed in the interdealer broker segment through the Fixed Income Clearing Corporation (FICC), which is overseen by the Commission.[\[4\]](#) FICC’s model was formulated before the entrance of principal trading firms as significant participants in the Treasury markets in the early 2000s.[\[5\]](#)

Former Commissioner Elad Roisman noted that “expanding access to central clearing could ... have positive effects on market breadth and depth,” yet also cautioned that the Commission “should carefully consider whether we have adequate safeguards for ensuring that we do not further entrench entities as systemically important.”[\[6\]](#)

Others have noted that “while central clearing will certainly be a key element of the debate around Treasury market reform ... it should be subject to thorough study to assess both its costs and benefits – and particularly how different segments of the market may be impacted by additional clearing – before reforms are undertaken.”[\[7\]](#)

With these proposed amendments, the Commission takes an important step in seeking an improved regulatory framework for the central clearing of Treasury securities.[\[8\]](#) Increasing access to central clearing may result in

additional transparency, provide more comprehensive data on trading, and in certain instances, promote sounder risk management practices.

I am interested in hearing commenter views on the questions raised in today's release, including whether increasing access to central clearing can be achieved without leading to the entrenchment of larger firms. Are there mechanisms and incentives that would increase the amount of Treasury security transactions that are centrally cleared without imposing a mandate? Are there approaches that promote competition? How can robust risk management practices be achieved? While the balance between an overly prescriptive approach and a framework that incentivizes central clearing might be difficult to achieve, it can be crucial to a more resilient market structure.

Lastly, given the complexities associated with the regulation of the Treasury market and the critical role it plays in the global economy,<sup>[9]</sup> I would have preferred a comment period of at least 90 days.

Nonetheless, I am pleased to support today's proposal. I thank the staff in the Divisions of Trading and Markets, Economic and Risk Analysis, Examinations, Corporation Finance, and Investment Management as well as the Office of the General Counsel for their efforts on the proposal. I also want to recognize the contributions to this proposal from my former colleagues at the Department of the Treasury.

I look forward to the public comments and have no questions for the staff.

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[1] See, e.g., Staffs of the U.S. Department of the Treasury, Board of Governors of the Federal Reserve System, Federal Reserve Bank of New York, U.S. Securities and Exchange Commission, and U.S. Commodity Futures Trading Commission, *Recent Disruptions and Potential Reforms in the U.S. Treasury Market: A Staff Progress Report*, at 1 (Nov. 2021), available at <https://home.treasury.gov/system/files/136/IAWG-Treasury-Report.pdf> ("Joint Report"). This report represents the views of staff of the Commission and other Federal agencies. The report is not a rule, regulation, or statement of the Commission. The Commission has neither approved nor disapproved the content in the report. The report, like all staff reports, has no legal force or effect; it does not alter or amend applicable law, and it creates no new or additional obligations for any person.

[2] Congressional Research Service, *Treasury Securities Market Disruptions and Policy Issues, In Focus* (Jan. 10, 2022), available at <https://crsreports.congress.gov/product/pdf/IF/IF12012>.

[3] See Joint Report, *supra* note 1, at 7-20.

[4] U.S. Department of the Treasury, *A Financial System That Creates Economic Opportunities: Capital Markets*, at 81 (Oct. 2017), available at <https://home.treasury.gov/system/files/136/A-Financial-System-Capital-Markets-FINAL-FINAL.pdf> ("2017 Treasury Capital Markets Report").

[5] *Id.*

[6] Commissioner Elad L. Roisman, *Remarks at U.S. Treasury Market Conference* (Sept. 29, 2020), available at <https://www.sec.gov/news/speech/roisman-us-treasury-conference-2020-09-29>.

[7] Peter Ryan and Robert Toomey, *Improving Capacity and Resiliency in US Treasury Markets, Part II* (Mar. 30, 2021), available at <https://www.sifma.org/resources/news/improving-capacity-and-resiliency-in-us-treasury-markets-part-2/>; see also 2017 Treasury Capital Markets Report, at 81 ("to better understand . . . the consequences of reform options available in the clearing of Treasury securities, Treasury recommends further study of potential solutions by regulators and market participants.")

[8] Standards for Covered Clearing Agencies for U.S. Treasury Securities and Related Amendments to the Broker-Dealer Customer Protection Rule, SEC Release No. 34-95763 (Sept. 14, 2022), available at <https://www.sec.gov/rules/proposed/2022/34-95763.pdf>.

[9] *Id.* at 9.

