

Statement

Statement on Treasury Clearing



Commissioner Jaime Lizárraga

Sept. 14, 2022

Today, the Commission is proposing amendments designed to improve transparency and lower systemic risk in the \$23.3 trillion market for U.S. Treasury securities. By increasing the number of transactions subject to central clearing, these amendments should help strengthen the U.S. Treasury market and make it more resilient to unexpected shocks.

In the United States, the Treasury market plays a vital role in public finance and in monetary policy. Worldwide, market participants depend on this market to manage risk, post collateral, set benchmarks for borrowing and lending decisions, and for many other purposes.

Backed by the full faith and credit of the United States, Treasury securities can also serve as a safe haven for retail investors who prefer the certainty of a reliable return relative to riskier assets.

In short, as former SEC Commissioner Luis Aguilar noted in 2015, the “U.S. Treasury market remains the largest and most liquid sovereign debt market in the world,” and continues to play a “unique and indispensable role” in global finance.

Over time, however, the structure and size of the Treasury market has changed in important ways. Between 2007 and 2022, debt held by the public increased fourfold, from \$5.1 trillion to over \$23 trillion. During this period, electronic trading and expanded participation by proprietary trading firms brought with it a significant decrease -- 50 percent -- in central clearing of interdealer cash trades.

This reduction in market visibility carries implications for systemic risk, especially in the context of market disruptions. In October 2014, the Treasury market experienced unusually high levels of volatility and liquidity became significantly strained. In March 2020, the global spread of COVID-19 significantly disrupted the market. Even as recently as February 25, 2021, the prices of Treasuries dropped sharply amid strained liquidity conditions.

The changes the Commission is voting on today are aimed at reducing the risks generated by these market developments and at increasing much needed transparency.

Public feedback on all elements of the proposal will be essential. First, clearing agencies would be required to direct participants to centrally clear all repo and certain cash transactions in Treasuries in which they are counterparties. Second, the proposal will require clearing agencies to collect margin separately for house and customer transactions in Treasuries. Taken together, both elements may increase transparency, reduce systemic risk, and incentivize more central clearing.

Third, clearing agencies will also be required to take steps to facilitate access to central clearing for additional market participants like pension funds and asset managers. And also for indirect participants like investment

advisers and registered investment companies. These steps should reinforce the other elements of the proposal and further incentivize more central clearing.

Fourth, the proposal permits margin required and deposited with a clearing agency to be included as a debit in reserve formula calculations. This amendment should increase liquidity while maintaining customer protection objectives in current SEC rules.

Today's proposal to increase central clearing is an important step in enhancing visibility into and lowering risk in the Treasury market and I am pleased to support it.

I would like to acknowledge the important work of our partner agencies and financial regulators in overseeing the various segments and participants in the Treasury market.

I would also like to thank the staff in the Division of Trading and Markets, the Division of Economic and Risk Analysis, Division of Investment Management and the Office of the General Counsel for their hard work and dedication in crafting this thoughtful approach.