

A high-angle, top-down view of a grand, ornate spiral staircase. The staircase features intricate carvings on its balustrade and a central column at the bottom. The steps are light-colored, and the overall design is classical and detailed.

US Treasury and repo central clearing

Industry updates and recent
publications

August 2024

The EY logo, consisting of the letters 'EY' in a bold, white, sans-serif font. A yellow chevron shape is positioned above the 'Y'.

Building a better
working world

Market participants should assess the impact of updates ahead of the implementation dates.

- ▶ The FICC submitted rulebook updates to the SEC that focus on governance, open industry questions and enhanced membership standards.
- ▶ It is critical for market participants to allow sufficient time for the implementation dates.

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Welcome to Ernst & Young LLP's US Treasury securities and repo clearing update. The purpose of this periodic outreach is to provide a summary of market developments with respect to the implementation of the SEC US Treasury and Repo Central Clearing Rule (Clearing Rule) since our last publication. The Clearing Rule triggers significant change in US Treasury market structure that will have to be addressed by market participants (e.g., broker-dealers, institutional investors, interdealer brokers, Covered Clearing Agencies (CCAs) principal trading firms) to comply with the rules by the following key dates:

- ▶ March 31, 2025: netting members' compliance of enhanced CCA practices (currently DTCC's FICC is the sole CCA and has filed several rulebook updates with the SEC)
- ▶ December 31, 2025: market participant compliance to centrally clear eligible cash secondary market transactions
- ▶ June 30, 2026: market participant compliance to centrally clear eligible repo market transactions

Fixed Income Clearing Corporation (FICC) rulebook update – SEC filing summary, June 2024

On June 12, 2024, the FICC submitted further rulebook updates to the SEC which followed an initial set of rulebook change filings in February and March 2024.¹ This round of updates focused on monitoring requirements, clarification on open industry questions and enhanced membership standards. While further FICC rulebook changes may occur, it is critical for market participants to continually assess impact to allow sufficient time for the implementation dates.

Subject to approval by the SEC, the proposed updates are expected to be implemented no later than March 31, 2025, with trade submission requirements taking effect on December 31, 2025, and June 30, 2026.

Key high-level FICC rulebook updates

- ▶ Compliance monitoring: increased trade submission requirements and ability for FICC to assess/monitor member compliance
- ▶ Bank netting membership clarification: clarification that bank netting membership will include all bank branches under the same membership
- ▶ FICC membership and applicant standards: enhanced membership standards for new applicants and existing FICC members
- ▶ FICC rulebook definitions and rules: expanded and clarified FICC rulebook definitions and rules to align to the SEC's regulatory language

¹Links to earlier DTCC FICC rulebook change filings:

(1) February 27 2024 <https://www.dtcc.com/-/media/Files/Downloads/legal/rule-filings/2024/FICC/SR-FICC-2024-003.pdf>

(2) March 6 2024 <https://www.dtcc.com/-/media/Files/Downloads/legal/rule-filings/2024/FICC/SR-FICC-2024-004.pdf>

(3) March 11 2024 <https://www.dtcc.com/-/media/Files/Downloads/legal/rule-filings/2024/FICC/SR-FICC-2024-005.pdf>

(4) March 14 2024 <https://www.dtcc.com/-/media/Files/Downloads/legal/rule-filings/2024/FICC/SR-FICC-2024-007.pdf>

Market participant considerations

1 Compliance monitoring

As a result of FICC's enhanced trade submission requirements and extension of their existing right to request information from both members and members' Designated Examining Authority, firms will need to consider:

- ▶ Enhanced compliance programs and controls to support the new requirement to notify FICC of non-compliance, annual attestation and triennial independent review/report
- ▶ Increased data quality and logic for compliance with the new trade submission requirements
- ▶ Compliance in both a done-with and done-away model (if applicable)

Impact: FICC members will need to ensure that compliance policies/procedures/controls, reference data tagging, and reporting capabilities are along their critical path to implementation. Although the rules would be updated by March 31, 2025, netting members would not be obliged to comply with the trade submission requirement until December 31, 2025, for buy/sell transactions that are considered Eligible Secondary Market Transactions, and June 30, 2026, for Treasury Repo Transactions that are considered Eligible Secondary Market Transactions.

2 Bank netting membership clarification

The proposed revision clarifies that a branch and its parent bank are considered the same legal entity under GSD Rules and not separate affiliates.

Revised qualifications for bank netting membership include the following:

- ▶ Bank or trust company chartered as such under the laws of the US or a US state
- ▶ Bank or trust company established or chartered under the laws of a non-US jurisdiction that meets the qualifications applicable to a Foreign Person (i.e., satisfy its home country regulators' minimum financial requirements and the additional capital requirements outlined in the rulebook)

Impact: This clarification will help firms better identify and assess in-scope transactions subject to clearing.





3 FICC membership/applicant standards

FICC has made changes to initial membership qualification and ongoing membership requirements to support transparency into members' financial health (e.g., affiliates may be required to provide financial statements), liquidity (e.g., ability to deny applicants with insufficient liquidity) and financial resources (audited financial statements of the Guarantor).

Existing disciplinary actions are also being replaced with the new Credit Compliance Charge, which subjects members to an additional charge on their Required Fund Deposit. The charge is calculated as equal to the greater of either:

- ▶ \$1,000,000
- ▶ 25% of the normal calculation of the netting member's Required Fund Deposit

Impact: FICC is requiring additional membership transparency to support of liquidity risk management and instituting a new credit compliance charge in place of existing disciplinary actions. The revised charges should be considered by members and new applicants as a deterrent for failing to meet the new membership requirements.

4 FICC rulebook definitions and rules

The recent FICC rulebook updates align definitions and enforceability to the SEC's Clearing Rule and terminology.

Impact: The newly defined or enhanced terms can assist market participants with navigating the Clearing Rule requirements and exclusions within FICC construct. Key terms include:

- ▶ Eligible Secondary Market Transactions
- ▶ Buy/Sell Transaction
- ▶ Treasury Repo Transaction
- ▶ Designated Examining Authority
- ▶ Affiliated Counterparty
- ▶ Central Bank
- ▶ International Financial Institution
- ▶ Local Government
- ▶ Sovereign Entity

Recent publications, news articles and industry events

To learn more about the [SEC's Clearing Rule](#), see the SEC Final Rule and associated [Fact Sheet](#).

Links to other recent publications

[DTCC's UST clearing microsite now includes 'Segment Profiles & Recommended Access Models'](#)

July 2024

Published by: DTCC

FICC has recently published profiles and recommended access models on its UST Clearing microsite that include market participant profiles, illustrative trading activity, key considerations and an FICC-recommended clearing access model.

Segment profiles and related FICC documentation:

- ▶ [Agent Lender Custodian](#)
- ▶ [Alternative Asset Manager](#)
- ▶ [Bank Holding Company](#)
- ▶ [Independent Dealer](#)
- ▶ [Prime Broker/FCM](#)
- ▶ [Principal Trading Firms](#)
- ▶ [Regulated Asset Manager](#)

[The US Treasury Clearing Mandate: An Industry Pulse Check](#)

July 2024

Published by: DTCC

FICC conducted a survey in April 2024 to further support the industry's understanding of the implications of the SEC's Final Rule to expand central clearing activity. The survey findings demonstrate that the industry's level of understanding and preparedness have significantly improved since FICC conducted a similar survey last year.

Insights include:

- ▶ Newly refined estimates of volume transactions required to be submitted for central clearing
- ▶ Planned usage of FICC's access models
- ▶ The possible impact on margin and liquidity risk management resources

Rules Must be Considered in Combination

July 2024

Published by: ISDA

ISDA Chief Executive Officer Scott O'Malia informally discusses US Treasury clearing considerations in the context of the broader US prudential framework, bringing up possible impacts to regulations such as Basel III and global systemically important bank (G-SIB) surcharges.

SIFMA podcast: The Path to Clearing US Treasuries

May 2024

Published by: SIFMA

In a recent edition of The SIFMA Podcast, SIFMA president and CEO Kenneth E. Bentsen Jr. sat down with Robert Toomey and William Thum, who outline SIFMA and SIFMA AMG's partnership to advance multiple work streams and short-term deliverables that will set the stage for long-term implementation. These include standard documentation, enhancements to market structure, further needed regulatory reforms and an operations timeline for all participants to adjust ahead of the 2026 go-live for US Treasury clearing.

EY webcast: Impacts of Central Clearing of US Treasuries and Repo

May 2024

Published by: Ernst & Young LLP

In this webcast, Ernst & Young LLP Managing Director Brendan Maher hosts several industry panelists to discuss key themes and high-level requirements of the US Treasury and repo central clearing rules. Discussion topics include, but are not limited to, the below topics:

- ▶ Compliance deadlines and the implementation runway
- ▶ Providing and maintaining access to the US Treasury and repo markets
- ▶ The impact to margin and collateral management
- ▶ International and inter-affiliate booking model implications
- ▶ Changes to the 15c3-3 calculations
- ▶ Done-away model

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