January 27, 2025

The Honorable Scott Kenneth Homer Bessent
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Secretary Bessent:

Congratulations on being confirmed to be the 79th Secretary of the U.S. Treasury. MFA[1] stands ready to work with you and your team to advance policies that support U.S. economic growth and the financial well-being of all Americans by ensuring that the U.S. capital markets remain the most robust in the world. The incoming Administration has an opportunity to turn the page from the outgoing regulatory agenda and revisit the misguided policies that have harmed markets, investors, and the economy.

MFA emphasizes the importance of implementing right-sized regulations that effectively balance oversight with innovation to support a dynamic and resilient financial ecosystem. Fostering continued growth in both public and private markets is essential to maintaining investor confidence and ensuring the stability of the broader economy. To achieve this, it is imperative to provide market participants with clear and consistent rules, enabling them to navigate the regulatory landscape with certainty and contribute positively to economic growth. We also urge you to reestablish close coordination among financial regulators to ensure communication on critical rules impacting the Treasury markets and our capital markets.

MFA is pleased to submit several recommendations for the Administration to take to improve regulation for the benefit of all investors.

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[1] Managed Funds Association (MFA), based in Washington, DC, New York City, Brussels, and London, represents the global alternative asset management industry. MFA's mission is to advance the ability of alternative asset managers to raise capital, invest it, and generate returns for their beneficiaries. MFA advocates on behalf of its membership and convenes stakeholders to address global regulatory, operational, and business issues. MFA has more than 180 fund manager members, including traditional hedge funds, private credit funds, and hybrid funds, that employ a diverse set of investment strategies. Member firms help pension plans, university endowments, charitable foundations, and other institutional investors diversify their investments, manage risk, and generate attractive returns throughout the economic cycle.

FSOC designation guidance should revert to the 2019 standards

Alternative asset managers do not pose a systemic risk and are already subject to the Securities and Exchange Commission's ("**SEC**") robust regulatory regime. MFA believes that the Financial Stability Oversight Council's ("**FSOC**") adoption of the flawed 2023 Guidance has hurt financial stability. Systemically Important Financial Institution designation for alternative asset managers is inappropriate — as they do not carry the same risks as banks — and will do nothing to curtail systemic risk in the market.[2] The Guidance imposed a black box designation process that introduced uncertainty for market participants, harming their ability to deliver for their investors, including pensions, foundations, and endowments.

MFA encourages the Administration to explore more lasting changes to the role and expectations of FSOC to protect against penalizing politically disfavored market segments or participants in the name of "systemic risk." MFA, at a minimum, urges FSOC to revert to the 2019 guidance regarding the designation of entities as systemically important, which would require FSOC to consider the costs and benefits of such a designation. MFA also encourages the Administration to seek permanent changes to the analysis required of FSOC. Market participants are harmed by criteria that shift under each administration.

Form PF data collection should follow statutory purpose; regulator data security is paramount

MFA stands ready to partner with the Administration to ensure FSOC has the private fund information necessary to surveil financial stability risks in the markets. We note that the SEC revised Form PF twice during the previous Administration to require the disclosure of considerable additional data from private fund managers.

The SEC's recent amendments fundamentally rewrite Form PF in ways beyond its original statutory purpose of providing FSOC with data to assess potential systemic risk. The SEC's expansion of Form PF beyond this original statutory mandate will lead to the collection of less meaningful information while significantly increasing advisers' reporting burdens. MFA has long supported the SEC's reconsideration of Form PF to tailor the Form for its primary intended statutory purpose and looks forward to further discussions of

[2] See MFA comment letter: https://www.mfaalts.org/press-releases/mfa-letter-to-fsoc-recommends-changes-to-proposed-guidance/.

what, if any, additional information regulators may require to better monitor for systemic risk after these two Form PF revisions. MFA was disappointed that the SEC did not move both Form PF rules together to help reduce the implementation burden on managers, and MFA has called for a six-month compliance extension.[3]

Moreover, as data reporting requirements continue to escalate, MFA grows increasingly concerned about the cybersecurity risk at Treasury and other agencies. MFA encourages Treasury and other agencies to ensure that measures are in place to adequately protect the market and participant data that the agencies collect and to continually evaluate and strengthen those protections as new threats emerge. We call on Congress to pass data protection legislation applicable to financial regulation agencies and specifically to the data that private funds provide to regulators and FSOC.

Improving the Treasury clearing ecosystem to pave the way for central clearing

We support efforts to enhance Treasury market efficiency and resiliency by modernizing market architecture to account for the significant growth of U.S. debt and to mitigate the vulnerabilities in market function highlighted by recent market events.

While we support the SEC's intent to strengthen the U.S. Treasury markets by mandating central clearing, we believe the priority should be to expand the availability of central clearing. Without this, requirements for some transactions to be centrally cleared will be counter-productive, decreasing market efficiency and resiliency by making it more difficult and expensive for investors to transact and increasing market concentration and risk.

Given the critical role that the U.S. Treasury markets play in the U.S. and global economies, we believe it is imperative for the Inter-Agency Working Group ("**IAWG**") to engage as equal partners and convene to discuss how to ensure an efficient market transition to central clearing. Promoting confidence in the Treasury markets is especially important now when there are demand weaknesses, which could jeopardize the U.S. government's ability to issue and refinance its debt efficiently. Without these changes, the central clearing mandate could hurt, not help, the markets. In particular, MFA brings to IAWG's attention the following steps that should be taken by the SEC, banking regulators,

[3] See MFA, AIMA, IAA, and SIFMA AMG joint comment letter: https://www.mfaalts.org/letter/mfa-requests-cftc-sec-extend-form-pf-compliance-deadline.

the Fixed Income Clearing Corporation ("**FICC**"), or any other covered clearing agencies ("**CCAs**") that provide clearing services for U.S. Treasuries, to enhance the resilience of the U.S. Treasury markets before cash or repurchase agreement ("**repo**") transactions are required to be centrally cleared[4]:

- Address the narrowness of the inter-affiliate exception from the Treasury clearing mandate.[5]
- Take steps to address the forced bundling of clearing and execution services and ensure the availability of "done-away" clearing (*i.e.*, where a participant trades with a third party and then submits the trade to a clearing member for clearing).
- Facilitate broader cross-margining to permit market participants to calculate risk-based margin requirements across correlated positions cleared at different clearinghouses.
- To fully realize the benefits of cross-margining programs, any amendments to the capital requirements for larger banking entities with significant trading activities by U.S. banking regulators must recognize the risk off-sets associated with cross-product netting arrangements and related margining, as appropriate.
- Ensure CCAs have adequate time to develop their models and rules and take whatever other steps are necessary to improve the Treasury market ecosystem.

To avoid disrupting the Treasury markets, these issues must be resolved before the Treasury mandate goes into effect. We believe regulators should consider extending the compliance deadline for mandatory clearing to ensure that the regulatory and operational frameworks are developed.

In addition, the IAWG should recognize that hedge funds' participation in the Treasury cash-futures basis trade in recent years has contributed to Treasury market liquidity and efficiency. The basis trade facilitates price discovery and reduces the segmentation between the cash and futures markets by creating greater market depth, narrowing bid-ask spreads, and dampening volatility in the Treasury cash, futures, and repo markets. It also lowers government funding costs by increasing demand for cash Treasuries, thereby reducing yields on U.S. government debt and, ultimately, taxpayers'

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[4] See MFA comment letter: https://www.mfaalts.org/letter/mfa-submits-letter-to-sec-urging-revisions-to-ficc-treasury-clearing-rules/.

[5] See MFA, AIMA, IAA, and SIFMA AMG joint comment letter: https://www.mfaalts.org/letter/mfa-requests-sec-for-targeted-exemptive-relief-to-the-inter-affiliate-exception-in-the-treasury-clearing-rule/.

costs. In this way, hedge funds play an important role in ensuring the broader Treasury market ecosystem functions well.

Extend the compliance date of the OFR Repo Reporting Rule for Category 2 reporters

On May 6, 2024, the Office of Financial Research ("**OFR**") adopted a rule to improve the transparency within the repo market by establishing a data collection for non-centrally cleared bilateral transactions ("**Repo Reporting Rule**").[6] While we support improving data collection by regulators to help them identify and monitor risks to financial stability, we believe the rule is inefficient because it requires dual-sided reporting (*i.e.*, by both buy-side and sell-side firms) and will lead to inaccurate data sets.

Sell-side firms ("**Category 1**") reporters have started reporting as of December 2024, but buy-side firms ("**Category 2**") reporters have until April 2025 to begin reporting their repo transactions. We do not believe subjecting buy-side entities such as private funds, who predominantly enter into transactions with financial intermediaries like broker-dealers or banks or their affiliates, to a costly new reporting regime is warranted. However, we request that Treasury, at least, grant a twelve-month extension of the compliance date of the OFR reporting rule for Category 2 reporters. This would be consistent with the recent Regulatory Freeze Executive Order.[7] It also would give Category 2 reporters, who have hitherto mostly relied on broker-dealers (Category 1 reporters) to report on their behalf, more time to build the technological systems necessary to comply with the new rule.

CIP rules will require an extension of the AML compliance date; additional guidance is needed

We recommend that the Financial Crimes Enforcement Network ("**FinCen**") extend the compliance date for the anti-money laundering ("**AML**") rules adopted last year. The

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[6] *The Repo Reporting Rule establishes two categories of "covered reporters": (1) A securities broker-dealer or government securities broker-dealer ("Category 1") and (2) any other financial company with over $1 billion in assets or assets under management whose average daily outstanding commitments to borrow and extend guarantees in non-centrally cleared bilateral repo transactions, including commitments of all funds for which the company serves as an investment adviser, with counterparties that are not securities broker-dealers or government securities broker-dealers overall business days during the prior calendar quarter is at least $10 billion ("Category 2").*

[7] See https://www.whitehouse.gov/presidential-actions/2025/01/regulatory-freeze-pending-review/.

customer identification program ("**CIP**") rules, proposed jointly by the SEC and FinCen last year, remain outstanding. If the CIP rules are adopted, investment managers must consider the CIP and AML rules in tandem to develop a holistic, risk-based compliance program that meets the requirements of both rules.[8] MFA also would encourage FinCen to issue interpretive staff guidance through frequently asked questions and otherwise to provide clarification on various aspects of the rule.

Tax policy should promote growth and sound tax administration

In 2017, Congress required fund managers to adhere to a three-year holding period for long-term capital gains, impacting many investment strategies. Worsening the current punitive and discriminatory tax treatment of carried interest will constrict growth. MFA supports fair, investment-neutral, pro-growth tax policy that allows our members to deliver returns for their investors and their beneficiaries—pensioners, students, and charities—in every state. To this end, MFA supports tax policy that allows the diverse funds we represent to compete on an even playing field with all investment opportunities.

We encourage the Department of the Treasury, the Office of Tax Policy, and the Internal Revenue Service ("**IRS**") to work constructively with stakeholders to preserve and advance pro-growth tax policy, including withdrawing or modifying the regulatory and administrative guidance issued by Treasury and the IRS during the prior Administration which is at odds with fundamental principles of fairness and investment-neutrality and sound tax administration.

Existing regulations sufficiently address the use of AI tools

MFA believes existing regulatory frameworks are well-designed to address the current and potential uses of artificial intelligence ("**AI**") in the alternative asset management industry because the rules regulate activities and avoid regulating specific technological tools. We support technology-neutral frameworks that address specific activities rather than technologies as being the most appropriate regulatory approach to AI.[9] While use cases for AI are still evolving, the technology has demonstrated the potential to unlock important efficiencies and yield benefits. As a result, while regulators

[8] See MFA comment letter: https://www.mfaalts.org/letter/mfa-submits-comments-to-sec-fincen-on-the-anti-money-laundering-proposal/.

[9] See MFA comment letter: https://www.mfaalts.org/letter/mfa-makes-recommendations-to-treasury-on-regulation-of-use-of-ai-in-financial-services/.

must ensure their regulatory frameworks are adequate to govern the marketplace today, we urge regulators to avoid any potential actions that could unintentionally stymie the development of new technological tools that could augment human capabilities and ultimately amplify benefits to investors.

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MFA appreciates your consideration of our term recommendations to ensure U.S. capital markets remain the most robust in the world and that U.S. investors and savers have the best opportunity for success. We would be pleased to discuss our recommendations in further detail. Please do not hesitate to reach out to Jillien Flores, Head of Global Government Affairs (Jflores@mfaalts.org), Jennifer W. Han, Chief Legal Officer & Head of Global Regulatory Affairs (Jhan@mfaalts.org), or me (Bcorbett@mfaalts.org).

Sincerely,

Bryan Corbett
President and Chief Executive Officer
MFA