



asset management group

January 24, 2025

Mark T. Uyeda
Acting Chairman
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: *File No. S7-23-22: 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*

Dear Acting Chairman Uyeda:

The Securities Industry and Financial Markets Association (“SIFMA”)¹, its Asset Management Group (“SIFMA AMG”), Managed Funds Association (“MFA”), Futures Industry Association (“FIA”), FIA Principal Traders Group (“FIA PTG”), International Swaps and Derivatives Association (“ISDA”), Alternative Investment Management Association (“AIMA”), The Institute of International Bankers (“IIB”) (collectively, the “Associations”), are submitting this letter on behalf of our respective members (the “association members”) relating to the implementation of the Securities and Exchange Commission’s (“SEC”) rule concerning clearing of cash transactions and repurchase agreements (“repos”) involving U.S. Treasury securities (“Clearing Rule”).

We are writing to request an extension of the implementation dates for the Clearing Rule by, at a minimum, 12 months, to allow the SEC time to consider and address several critical issues requiring resolution and for the industry (including covered clearing agencies (“CCAs”), clearing members, and participants) to have sufficient time to develop and implement clearing. Given the complexities and inter-dependencies of many of the items required for successful implementation, the Associations may need to further engage with SEC staff regarding timelines if unforeseen complexities develop. While critical issues related to the future liquidity in Treasury markets are within the SEC’s remit (inter-affiliate exemption, tri-party transactions, double margining, etc.), it is important to note that there are other issues (bank capital, extraterritorial impact, “done-away” market development, documentation standardization, and client onboarding, etc.) which also need to be addressed for the Clearing Rule to be a success, requiring cooperation and collaboration between the SEC, the CFTC, banking regulators, and overseas regulators. The Associations are happy to work with the SEC on the legal form of any such relief.

¹ Descriptions of each industry association signatory to this letter are included in an appendix.

Association members are concerned that, without an extension, the success of the transition to central clearing will be seriously compromised and will inevitably lead to disruptions in the cash and repo markets in Treasury securities to the detriment of the financial system. Additional time is needed to consider how to resolve critical issues both for the further development of the cleared market and so that market participants may successfully implement the Clearing Rule in an efficient manner. These issues include:

1. SEC rule clarifications with respect to the treatment of mixed CUSIP tri-party transactions;
2. SEC rule clarifications as to the scope of the inter-affiliate exemption; including, in particular, expanding the exemption to allow for internal liquidity and collateral management;
3. SEC-registered fund rules that effectively require double margining for cleared repos;
4. SEC rule clarifications with respect to the ability of firms to pre-fund customer segregated margin with USD (and not only UST);
5. SEC rule clarifications with respect to the ability of firms to take debit in the formula even if client does not pay margin back within 24 hours;
6. SEC rule clarifications as to the overall extraterritorial scope of the rule, and necessary SEC engagement with overseas regulators to ensure the ability for global participants to clear cash and repo transactions;
7. SEC to seek public comment and fully consider the clearing application of the CME Group, as well as ICE and other clearing houses, and the availability of the cross-margining model to facilitate cross-product netting between repos and futures;
8. Standard documentation and supporting legal opinions are finalized for the efficient customer on-boarding and development of robust liquidity in cleared Treasury markets; and
9. Bank capital issues under the existing capital framework need to be resolved for the development of the “done-away” market structure to confirm similar treatment currently applicable to the “done-with” market structure.

The implementation timeline for the Clearing Rule is significantly shorter than that provided for similarly sized industry reforms including the LIBOR transition and the uncleared margin rules. The issues to be resolved are in addition to the significant efforts already underway to develop the “done-away” market structure - both with respect to an efficient approach to trading and the establishment of new entrants for clearing and trading. The industry also needs to focus on the ability for global participants to clear cash and repo transactions involving Treasury securities.

SIFMA also continues to work with market participants to develop standard documentation and supporting legal opinions to facilitate the development of robust liquidity in cleared Treasury markets. There is also a significant onboarding process that dealers and clients must undertake (including negotiation and execution of clearing agreements) that takes time and resources to complete with respect to the broad range of clients that trade in this market.

Background:

The Clearing Rule requires covered clearing agencies (“CCAs”) for U.S. Treasury securities to have written policies and procedures reasonably designed to require that every direct participant of the CCA submit for clearance and settlement all eligible secondary market transactions in U.S. Treasury securities to which it is a counterparty. The result of this rule is that many entities currently active in the cash and repo markets for Treasury securities will be required to submit a significantly increased volume of cash and repo transactions to a CCA.

The Clearing Rule requires firms that today do not participate in central clearing to develop the legal, operational, and business infrastructure to enter cleared markets. Firms that today are members of CCAs will need to upgrade systems, operations, and legal relationships with the CCAs and with their customers to allow access to central clearing consistent with the new CCA requirements in the Clearing Rule. Given the size and importance of the U.S. Treasury market, this presents significant challenges to many market participants to comply.² Although implementation of the Clearing Rules is an utmost priority for market participants, which are dedicating significant amounts of time and capital to implementation, we believe the current timeline will not allow for critical issues to be resolved and adequate time for all market participants to transition into cleared Treasury markets.

The Clearing Rule includes a staged implementation period with three relevant deadlines for purposes of this request:

- **March 31, 2025:** CCAs must implement rulebook changes addressing the new requirements in Exchange Act Rules 17Ad-22(e)(6)(i) (regarding separation of house and customer margin), 17Ad-22(e)(18)(iv)(c) (regarding access), and 15c3-3 (regarding the broker-dealer customer protection rule).
- **December 31, 2025:** Direct participants of CCAs must clear cash market transactions encompassed by section (ii) of the definition of an “eligible secondary market transaction” as defined in the Clearing Rule.
- **June 30, 2026:** Direct participants of CCAs must clear repo transactions encompassed by section (i) of the definition of an “eligible secondary market transaction” as defined in the Clearing Rule.

Hurdles to Implementation

To meet the requirements to clear within the timeframes required by the SEC, market participants have been working diligently developing the market structures, legal documentation, and operational models to facilitate the transition to central clearing. In addition to the publication of the SIFMA/EY Report, SIFMA has published market standard documentation for “done-with”

² See the SIFMA/EY report, *U.S. Treasury Central Clearing: Industry Considerations Report*, November 13, 2024 (“SIFMA/EY Report”). The SIFMA/EY report reflects the significant and interrelated issues for firms in implementing the requirements. The SIFMA/EY report is available [here](#).

repo clearing and is hard at work in clarifying the “done-away” market structure to develop standard documentation for “done-away” repo clearing. However, as noted in the SIFMA/EY Report, there are a significant set of issues and considerations that will need to be resolved to achieve a non-disruptive implementation.

Important issues related to the scope of the Clearing Rule remain unresolved, as articulated in SIFMA’s request for no-action relief, and as currently highlighted in the public comment file for the proposed rule changes that the Fixed Income Clearing Corporation (“FICC”), in its capacity as a self-regulatory organization (“SRO”), was required to file under the Clearing Rule to address requirements around the submission of eligible secondary market transactions. These include the treatment of mixed CUSIP triparty transactions, the extraterritorial scope of the Clearing Rule requirements, and the usefulness of the inter-affiliate exemption.³ Mixed CUSIP triparty transactions (i.e., transactions which include non-Treasury securities as well as Treasury securities) should not be subject to clearing as this would inappropriately increase the scope of transactions and products expected to be cleared beyond the intent of the Clearing Rule. Similarly, a failure to address concerns around the inter-affiliate exemptions could render that exemption unusable or inappropriately adversely impact the ability of large and complex institutions to manage their liquidity and collateral needs, as well as increase the expected scope of entities’ activities subject to clearing requirements.⁴ A lack of clarity regarding the extraterritorial scope of the rule could lead foreign investors to withdraw from the Treasury securities market, among other negative consequences.⁵

These consequential issues need to be resolved so that market participants understand what is meant to be included within the clearing requirements and what activities may be impacted. In addition, the resolution of these many important issues will require more time than the current February 26, 2025 deadline for final SEC action on FICC’s proposed eligible secondary market transaction trade submission rules currently allows.⁶

Also, the interaction of the Clearing Rule with the requirement for SEC-registered funds to have their repo transactions collateralized fully needs to be addressed to avoid the potential for double margin as such transactions transition to clearing. Failure to resolve this issue may render

³ See the comment file for Release No. 34-100417; File No. SR-FICC-2024-009, available [here](#).

⁴ See letter from Robert Toomey to Vanessa A. Countryman, October 2, 2024 in SR-FICC-2024-009, available [here](#).

⁵ See letter from Stephanie Webster to Vanessa A. Countryman, July 22, 2024, in SR_FICC-2024-009, available [here](#).

⁶ Any extension should allow for FICC to withdraw its current trade submission filings so that it and any other interested CCAs have the necessary time and ability to consult further with market participants and the SEC on resolving these fundamental scoping questions before developing and submitting SRO rulebook changes for eligible secondary market transaction CCA submission.

repo transactions to become uneconomical and thereby limit the ability of key liquidity providers to remain active in the Treasury repo market.⁷

With respect to the March 31, 2025 deadline, currently FICC is the only CCA for eligible secondary market transactions but that does not mean that all Treasury market participants currently clearing indirect participant activity at FICC are now ready to be able to make the necessary legal, operational, and risk management changes in time for complying with FICC's new rules and procedures by the March deadline. Indeed, it would be disruptive to the broader Treasury markets if the new FICC SRO rules and procedures became mandatory before the entire marketplace was ready to comply with such requirements. At the same time, some market participants are expected to be ready and able to start using FICC's new services and risk management capabilities on or sometime around March 31, 2025 and that population will continue to grow. Therefore, FICC should proceed with implementing the required access and risk management changes set forth in the Clearing Rule, but the SEC should also permit FICC in its capacity as an SRO to forebear from enforcing those requirements for any of its members until March 31, 2026. Adopting this approach will both help maintain progress on achieving orderly implementation of the overall Clearing Rule, while also preserving momentum for achieving critical related initiatives (such as the expansion of the CME-FICC cross-margining arrangement to customer activity).

In addition, it is important that other CCAs have adequate time to develop their models and rules; including, for example, that the SEC will need time to seek public comment and fully consider the application from the CME Group. The industry is also in discussions with FICC on changes to aspects of its framework that could serve to enhance its practices with respect to risk management, efficiency, and resilience which will take time to implement.

Time is also required for a viable model for “done-away” to be developed to allow flexibility for market participants to access clearing in the volumes necessary to avoid disruptions to the overall Treasury market. The industry has done a significant amount of work to develop structures and standard legal documentation to support this effort but it is improbable that a liquid market under this model will develop under the current mandated timelines. Significant bank capital treatment issues also need to be resolved to allow for the development of the “done-away” structure.

Conclusion

The Associations support the goals of the SEC to enhance the resiliency of, and reduce risk in, the cash and repo Treasury markets through increased central clearing. We believe final implementation of the Clearing Rule will provide improvements for this market.

⁷ See letter from William Thum to Vanessa A. Countryman, December 23, 2022 in Release No. 34-95763, File No. S7-23-22, available [here](#)

However, the importance of the Treasury market to the financial system and the economy, along with the expected significant issuance of Treasury securities in the coming years, argues for an implementation timeline for the Clearing Rule that allows for a smooth transition so as not to disrupt this market. We believe that the current timeline will not afford time for critical issues to be resolved in a timely manner that will serve as a foundation for the successful implementation of the clearing mandate.

Therefore, we respectfully request that the SEC extend the implementation timeline by at least one year for the cash and repo clearing deadlines noted above. With respect to the March 31 compliance date for the new FICC SRO requirements, FICC should proceed with implementing the required access and risk management changes set forth in the Clearing Rule, but the SEC should also permit FICC in its capacity as an SRO to forebear from enforcing those requirements for any of its members until March 31, 2026.

This request recognizes that significant open issues remain and efforts by the industry, the SEC, the CFTC, Bank regulators and overseas regulators to resolve these will need to be concluded expeditiously to accommodate our suggested extension request. We are committed to working with the SEC and market participants to resolve these issues and develop the necessary infrastructure to enable a successful transition to Treasury clearing.

Given the proximity to both the first implementation date at the end of March as well as the imminent February 26 final action date for FICC's proposed trade submission requirements, it is imperative that this extension request is given immediate consideration - with a decision concerning the extension occurring prior to February 21.

We are happy to discuss this further with you and provide any additional information that you might need.

A handwritten signature in black ink, appearing to read "Ken Bentsen", with a stylized flourish at the end.

Ken Bentsen
President & CEO
SIFMA

/s/ Jennifer W. Han

Jennifer W. Han
Chief Legal Officer & Head of Global Regulatory Affairs
MFA



Walt Lukken
President & CEO
FIA



Joanna Mallers
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FIA PTG



Scott O'Malia
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Beth Zorc
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cc: Hester Peirce, SEC Commissioner
Caroline Crenshaw, SEC Commissioner
David Saltiel, Acting Director, SEC Division of Trading and Markets
Elizabeth Fitzgerald, Assistant Director, SEC Division of Trading and Markets

Natasha Vij Greiner, Director, SEC Division of Investment Management
Kaitlin C. Bottock, Co-Chief Counsel, SEC Division of Investment Management
Brian Smith, Assistant Secretary of Financial Markets (Acting), United States Treasury

Appendix – Description of Industry Association Signatories

SIFMA - SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's one million employees, we advocate on legislation, regulation and business policy affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association ("GFMA"). For more information, visit <http://www.sifma.org>.

SIFMA AMG - SIFMA AMG brings the asset management community together to provide views on U.S. and global policy and to create industry best practices. SIFMA AMG's members represent U.S. and global asset management firms whose combined assets under management exceed \$45 trillion. The clients of SIFMA AMG member firms include, among others, tens of millions of individual investors, registered investment companies, endowments, public and private pension funds, UCITS and private funds such as hedge funds and private equity funds. For more information, visit <https://www.sifma.org/committees/amg/>.

MFA - Managed Funds Association (MFA), based in Washington, D.C., 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.

FIA - FIA is the leading global trade organization for the futures, options, and centrally cleared derivatives markets, with offices in Brussels, London, Singapore and Washington, D.C. FIA's mission is to support open, transparent, and competitive markets; protect and enhance the integrity of the financial system; and promote high standard professional conduct. FIA's membership includes clearing firms, exchanges, clearinghouses, trading firms and commodities specialists from about 50 countries as well as technology vendors, law firms and other professional service providers.

FIA PTG - FIA PTG is an association of firms, many of whom are broker-dealers, who trade their own capital on exchanges in futures, options and equities markets worldwide. FIA PTG members engage in manual, automated and hybrid methods of trading, and they are active in a wide variety

of asset classes, including equities, fixed income, foreign exchange and commodities. FIA PTG member firms serve as a critical source of liquidity, allowing those who use the markets, including individual investors, to manage their risks and invest effectively. The presence of competitive professional traders contributing to price discovery and the provision of liquidity is a hallmark of well-functioning markets. FIA PTG advocates for open access to markets, transparency and data-driven policy.

ISDA - Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 76 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on [Twitter](#), [LinkedIn](#), [Facebook](#) and [YouTube](#).

AIMA – The Alternative Investment Management Association (“AIMA”) is the global representative of the alternative investment industry, with around 2,100 corporate members in over 60 countries. AIMA's fund manager members collectively manage just over \$4 trillion in hedge fund and private credit assets. AIMA draws upon the expertise and diversity of its membership to provide leadership in industry initiatives such as advocacy, policy and regulatory engagement, educational programs and sound practice guides. AIMA works to raise media and public awareness of the value of the industry. AIMA set up the Alternative Credit Council (ACC) to help firms focused in the private credit and direct lending space. The ACC currently represents over 250 members that manage over \$2 trillion of private credit assets globally. AIMA is committed to developing skills and education standards and is a co-founder of the Chartered Alternative Investment Analyst designation (CAIA) – the first and only specialized educational standard for alternative investment specialists. AIMA is governed by its Council (Board of Directors). For further information, please visit AIMA's website, www.aima.org.

IIB - The Institute of International Bankers (IIB) represents the U.S. operations of internationally headquartered financial institutions from more than 35 countries around the world. The membership consists principally of international banks that operate branches, agencies, bank subsidiaries, and broker-dealer subsidiaries in the United States. The IIB works to ensure a level playing field for these institutions, which are an important source of credit for U.S. borrowers and comprise the majority of U.S. primary dealers. These institutions also enhance the depth and liquidity of U.S. financial markets and contribute significantly to the U.S. economy through direct employment of U.S. citizens, as well as through other operating and capital expenditures.