US Treasury bonds

SEC votes to expand central clearing in overhaul of $26tn Treasury market

Plans cover fewer trades than initially proposed in concession to hedge funds

The Securities and Exchange Commission proposed its Treasury bond clearing rule last year © Bloomberg

Kate Duguid in New York and **Stefania Palma** in Washington 13 HOURS AGO

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US regulators on Wednesday voted to require more Treasury bond trades to be cleared centrally, a landmark reform aimed at bolstering the resilience of one of the world's most important financial markets.

The Securities and Exchange Commission in Washington voted four to one in favour of a proposal that could require an additional $1tn of daily trades to be handled by an independent clearing house. That would mean market participants have to stump up collateral to back those positions or cap the amount they can borrow in so-called repo trades.

"[The new rules] will reduce risk across a vital part of our capital markets in normal times and stress times," said Gary Gensler, chair of the SEC. "That benefits investors, issuers and the markets connecting them."

Regulators want to shore up the market — which sets the price of US government debt and is the reference point for assets across the globe — following repeated bouts of instability over the past decade, most notably the "dash for cash" that sent Treasuries into freefall at the start of the Covid-19 pandemic in March 2020. Then, the Fed was forced to buy large amounts of Treasuries to steady the market.

The SEC framework will bring the Treasury market more into line with equities, futures and swaps, where clearing is common. A clearing house stands between a buyer and seller and prevents failed trades from cascading through the market. Only 13 per cent of Treasury trades are fully cleared, while 19 per cent have some part of the trade that is cleared centrally, according to the Treasury Market Practices Group.

Since the financial crisis, hedge funds and high-speed traders have become increasingly dominant in Treasury trading, and many settle their trades bilaterally, rather than going through a central clearing house.

The new regulation could help rein in the proliferation of highly leveraged bets on the Treasury market placed by hedge funds in recent years, which have come under increasing scrutiny from regulators and central banks in 2023. Gensler has also undertaken a broad push to revamp rules for trading, with an agenda that includes more oversight of lightly regulated entities such as hedge funds and proprietary traders.

"This is the most significant day for the structure of the US Treasury market in decades," said Nate Wuerffel, head of market structure at BNY Mellon. He added that the new rules would make the market more resilient but "embed new costs in the system" in the form of margin requirements and fees paid to the central clearing house.

However, the final rule voted on by the SEC on Wednesday will cover fewer Treasuries trades than proposed in a draft version published in September last year.

The final rule applies to some cash trading, and more broadly to the repo market, where banks and investors borrow cash for the short term, offering high-quality collateral such as Treasuries in return. Hedge funds and leveraged traders will not be required to clear deals centrally in the cash market, as initially proposed, following pushback from the industry.

Despite the exemption for some cash trading, the rule could capture an additional $1tn of daily repo and reverse repo trades for clearing, according to estimates from DTCC, the main US clearing house for Treasuries.

Some experts in Treasury market regulation worry that the reforms could inadvertently increase system-wide risks by concentrating them in a single clearing institution.

"This raises existentially serious concerns about how to publicly manage an institution that is likely to be the biggest and most systemic firm to hit the market in history," said Yesha Yadav, a professor at Vanderbilt University law school in Tennessee.

Many market participants have worried that the reforms could mean that broker-dealers would be required to find extra margin to back their customers' trades when the market is at its most stretched. To offset those concerns, the SEC has tweaked its rules to ease some margin requirements.

The SEC aims for the rules to come into effect in December 2025 on the cash side and June 2026 on the repo side.

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