J.P.Morgan

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J.P. Morgan SEC US Treasury Clearing Mandate – Frequently Asked Questions

This document is for informational purposes only and does not constitute legal, financial, or professional advice. The information in this document is provided as of Tuesday 25th March 2025 and reflects our understanding of the U.S. Treasury clearing mandate and related matters, as of this date.

This document also provides information related to our commercial clearing offerings, which will be delivered through J.P. Morgan's Prime Financial Services (PFS) and Fixed Income Financing (FIF) businesses.

All information contained within this document is indicative only, and subject to change alongside developments related to the mandate and J.P. Morgan's response to the mandate. Readers should enquire with their J.P. Morgan contacts to ensure that they are accessing the latest version of this document.

For further information, clients are advised to contact their J.P. Morgan Sales or Account Management coverage contacts.

A. Background and scope

1. What is the mandate, and why is it being introduced?

In December 2023, the Securities and Exchange Commission (SEC) finalized a new set of rules requiring the majority of the U.S. Treasuries (UST) market, including both eligible repo and cash trades, to be cleared through an SEC approved Covered Clearing Agency (CCA). A CCA is an SEC registered clearing agency that acts as a central counterparty (CCP) or Central Securities Depository (CSD).

The expansion of central clearing is part of a broader initiative by the Interagency Working Group on Treasury Market Surveillance (the IAWG) to enhance the resilience of the U.S. Treasury market. The IAWG is comprised of staff from the U.S. Department of the Treasury, the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York, the U.S. Securities and Exchange Commission, and the U.S. Commodity Futures Trading Commission.[1]

The SEC's central clearing rules are designed to enhance risk management practices for central counterparties in the Treasury market and facilitate additional clearing of Treasury securities transactions. The goals of the expansion of central clearing include reducing counterparty, operational, and liquidity risks; enhancing market efficiency; and increasing regulatory visibility into the market[2].

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[1] AWG Press Release - September 20 2024

[2] 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, SEC, December 2023

2. What are the requirements of the mandate and what entities / trades does it apply to?

The rule requires direct participants of covered clearing agencies (CCAs) that provide central counterparty (CCP) services for U.S. Treasury securities to submit for clearance and settlement all the eligible secondary market transactions in U.S. Treasury securities to which the direct participant is a counterparty.

Eligible secondary market transaction is defined as a secondary market transaction in U.S. Treasury securities of a type accepted for clearing by a registered CCA. That is:

- **Repo:** A repurchase or reverse repurchase agreement collateralized by U.S. Treasury securities, in which one of the counterparties is a direct participant.
- **Cash:** A purchase or sale, between a direct participant and:
  - Any counterparty, if the direct participant brings together multiple buyers and sellers using a trading facility (such as a limit order book) and is a counterparty to both the buyer and seller in two separate transactions (i.e., an interdealer broker or IDB); or
  - Registered broker-dealer, government securities broker, or government securities dealer.

An end user who is not a member of a U.S. CCA can still therefore have activity which is subject to the SEC Treasury clearing mandate by virtue of who they execute U.S. Treasury activity with, and how.

3. Which CCAs clear U.S. Treasury securities today?

Currently, the FICC (Fixed Income Clearing Corporation), which is a subsidiary of the Depository Trust & Clearing Corporation (DTCC), is the sole clearing agency in the United States acting as a central counterparty and provider of significant clearance and settlement services for U.S. Treasury cash and repo securities. These services are delivered through FICC's Government Securities Division (GSD).

4. Is J.P. Morgan a "direct participant" of FICC?

Yes, the following J.P. Morgan legal entities are direct participants of FICC, and therefore any in-scope activity where one of these entities is a counterparty will need to be cleared:

- J.P. Morgan Securities LLC (JPMS LLC), the U.S. broker dealer
- JPMorgan Chase Bank, National Association (JPMCB NA), and all of its branches

A full list of FICC direct, or netting, members, can be viewed here[3] (~210 members, generally large and mid-size banks and broker-dealers).

[3] Fixed Income Clearing Corporation Government Securities Division – Member Directory, DTCC, as of October 2024

5. What are the mandate compliance timelines?

On February 25, 2025, the SEC delayed the implementation of its Treasury clearing mandates.[4]

The compliance timelines, at time of writing in March 2025, are as follows[5]:

- CCA implementation and enforcement of enhanced GSD practices (including segregation of house and customer margin) – September 30, 2025
- Compliance date for eligible cash market transactions – December 31, 2026
- Compliance date for eligible repo market transactions – June 30, 2027

6. What trades and / or participants are exempt from the mandate?

The rule provides some exemptions for certain client types, including:

- **Repo and Cash:** Trades in which one counterparty is a central bank, a sovereign entity, an international financial institution, or a natural person will be excluded from the definition of eligible secondary market transaction.
- **Repo:** Any repo in which one counterparty is a CCP or a state or local government will be excluded from the definition of eligible secondary market transaction. Additionally, the following are out of scope as FICC, the only current SEC-approved CCA for U.S. Treasury clearing, does not support clearing of these product categories.:
  - Open Repos (repos which, at the time of booking, do not have a specified end date)
  - Repos with tenor in excess of two years
  - Any other types of repos for which clearing cannot be supported by FICC(this includes floating rate repos, for example)

FICC, the only current SEC-approved CCA for U.S. Treasury clearing, does not support clearing of these product categories.

[4] SEC Extends Compliance Dates, SEC Website (Press Release) Feb 25,2025
[5] Treasury Clearing, SIFMA, accessed November 2024

7. Are entities which are not FICC members subject to the mandate?

For repo trades, non-FICC member entities are brought into scope when facing a FICC member, barring any exceptions referenced in *Q6: What trades and / or participants are exempt from the mandate?*.

For cash trades, if the non-member entity is a registered U.S. broker-dealer or a government securities broker or government securities dealer (GSBD), they would be in scope when facing a FICC member. If the non-member entity is neither a registered U.S. broker-dealer or GSBD, they would only be in scope when facing a FICC member IDB platform.

8. How will compliance be monitored and what will be the penalties for non-compliance?

In June 2024, FICC issued a proposed rule change related to the adoption of a trade submission requirement, including measures that would facilitate FICC's ability to identify and monitor compliance, and adopt subsequent fines and other disciplinary actions[6]. The proposal speaks specifically to FICC monitoring and taking disciplinary action against its member firms, rather than indirect participants. At the time of writing, this proposed rule change has been approved by the SEC but has not yet been implemented by FICC.

9. What is the likelihood of the mandate compliance timelines changing?

As of Feb 25th 2025, the SEC has extended its original timelines[7] based on industry feedback.

SEC Acting Chairman Mark Uyeda has stated that "The U.S. Treasury market is a critical piece of the global financial system. New rules must be implemented properly, and any operational issues must be addressed".[8] He further stated that "This one-year extension provides additional time to implement and validate operational changes. Direct participants will also have more time to implement important risk management changes to comply with U.S. Treasury covered clearing agency rules. The Commission stands ready to engage with market participants on issues associated with implementation."[9]

J.P. Morgan continues to work with policymakers and industry associations to highlight the different aspects of work required, and potential implementation issues. J.P. Morgan will move forward with work and implementation, based on the current timelines.

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[6] SEC rule filing: FICC-2024-009, DTCC, June 2024
[7] SEC Extends Compliance Dates, SEC Website (Press Release) Feb 25,2025
[8] SEC Extends Compliance Dates, SEC Website (Press Release) Feb 25,2025
[9] SEC Extends Compliance Dates, SEC Website (Press Release) Feb 25,2025

B. U.S. Treasury clearing landscape and access models - further detail

10. FICC is the only approved clearing agency for Treasuries today. Is that expected to change?

The expectation is that other clearinghouses will enter the U.S. Treasury clearing market in response to the mandate, however they will require SEC approval to register as a Treasury CCA in order to do so.

- The Chicago Mercantile Exchange (CME) have sought the requisite regulatory approvals to clear U.S. Treasury transactions, formally filling an application for CMESC (a new CCA) to the SEC in December 2024. This was published in the Federal Register January 15th 2025 and open for public comment until March 10th 2025.
- The CME proposal includes two access model options, an 'Independent User' access model and a 'Supported User' access model. In both access models, the user (customer) directly settle the trades with CMESC (the CCA). In the Independent User access model, the collateral is also directly settled by the user with CMESC. In the Supported User Access model, collateral is indirectly settled via the CCA Member (the clearer).
- The Intercontinental Exchange (ICE) also announced plans to launch clearing services for all UST cash and repo trades through its existing SEC registered clearinghouse, ICE Clear Credit(ICC)7. ICCE are yet to formally submit an application to the SEC but we understand they plan to imminently.
    - o ICCE propose to offer models that allow for direct and indirect physical settlement with ICC. Collateral movements will be indirect via the Clearing Member.
- Both CME and ICCE propose to be live with offerings for Day 1 of both the cash and repo clearing mandates.

J.P. Morgan will continue to closely monitor related developments for CME and ICCE and work with these groups to understand their prospective offerings and regulatory approval timings.

11. How can market participants access U.S. Treasury clearing services?

In order to access clearing services at FICC, market participants can either be direct or indirect participants, with buy-side parties usually being indirect participants[10] rather than becoming full netting members of FICC.

In March 2024, FICC submitted an SEC filing[11] proposing to create the following two primary access models for indirect participants:

1. Sponsored Member of one or more FICC-approved Sponsoring Members (SM)

   This model is available on a 'done-with' basis, which ties execution and clearing activities via a single Sponsoring Member. It is also available on a 'done-away' basis where trades may be executed with one member and cleared (done-away) by another.

   For Repo, the Sponsored done-with model has been in place for a number of years and we expect will continue to be a core access route for clients.

[10] U.S. Treasury Clearing: Impact on the Buy-Side, DTCC, July 2024
[11] SEC rule filing: FICC-2024-005, DTCC, March 2024

J.P. Morgan already actively sponsors Repo clients at FICC through the Sponsored done-with model and will continue to offer this access model. Provision of clearing services under the done-away model is currently under review.

The latest approved jurisdictions for Sponsored Members are listed here (as of July 2024)[12]; FICC continuously evaluates additional jurisdictions and updates the approved jurisdictions list.

2. **Indirect participant (Agent Clearing Client) of one or more FICC-approved Agent Clearing Members (ACM)**

In this model, the indirect participant transacts with a direct participant (bank or broker dealer, or via an electronic platform), and clears those trades with an Agent Clearing Member, which guarantees the performance of the client to the CCP for activity, regardless of the executing entity, and calls the client for margin to mitigate counterparty credit risk.

The FICC Agent clearing model renames and consolidates the existing FICC correspondent clearing / prime broker services, and adopts provisions common to other Agent clearing models (e.g. existing models in derivatives clearing). The purpose is to create a workable done-away model whereby the clearing provider is not linked to the executing broker, and clients can consolidate portfolios and achieve margin efficiency.

Illustrated examples of done-with and done-away activity across both the FICC Sponsored and Agent clearing models can be viewed in this May 2024 DTCC summary[13].

Clients of J.P. Morgan's existing FIPB business already clear and settle cash activity today through J.P. Morgan Securities LLC, which is a FICC member. J.P. Morgan is exploring potential changes to this offering in light of the FICC's changes to its Agent clearing model. Further updates will be provided to clients as the industry progresses in shaping the done-away structure..

12. What will the different Agent clearing models be?

FICC will offer both gross segregated and net non-segregated options under the Agent Clearing model.

In the gross segregated model, client accounts will be set up as segregated, with initial margin calculated on a gross basis and paid by the client. This initial margin will be held separately from the assets of the Agent Clearing Member, as segregated customer margin, and will not be subject to loss mutualisation risk.

Under the net non-segregated structure, the client accounts will not be held at FICC on a segregated basis. Initial margin will be calculated on a net basis, and will be subject to loss mutualisation risk as part of FICC's clearing fund.

[12] Jurisdictions Approved by FICC for Sponsored Members, DTCC, July 2024
[13] FICC's Client Clearing Capabilities for Treasury Market Activity, DTCC, May 2024

13. What Agent clearing account offerings will J.P. Morgan support?

FICC has proposed options for gross client-level segregated margin and net margin posted at the CCP level. J.P. Morgan currently intends to offer boththe Agency Net Non-Segregated account on a Done-Away basis. We are additionally evaluating the financial impact and accounting opinions of different margin arrangements, access models and will finalize our proposed offering when there is more clarity. See Q165. What will J.P. Morgan's offering be for U.S. Treasury cash and repo, in response to the mandate? for further detail.

14. What U.S. Treasury cross-margin offerings are available in the industry?

Today, CME and FICC have a cross-margin model which is only approved for member/ house activity. Both CME and FICC are working together to extend the program to end-user customers. The cross-margin program includes interest rate futures cleared at CME, and FICC-cleared cash treasuries. Target go-live date is December 2025, subject to regulatory approval.[14]

For this to be feasible, the following criteria would need to be met: FICC trades would need to be cleared under a gross segregated margin account, whereby margin is calculated and held separately for each individual client account (Sponsored or Agent clearing model). Both the SEC and CFTC would need to provide approval for the cross-margin program to be extended to client activity.

CME and FICC have advised they intend to file for approval with the SEC and CFTC in Q2 2025.

J.P. Morgan is enhancing its portfolio margining product to create an independent, stress-based, non-CCP-driven margining capability that will allow for better validation of CCP margins and reduced settlement risk associated with independent margin payments. The dynamic, risk-sensitive margin process will enable clients to realize benefits of natural risk-offsets within their broader portfolios.

15. Will clients need to change custodians / will custodians need to be FICC members?

At this time, J.P. Morgan do not believe clients will need to change their current custodians to be their clearer. The sponsored done-with model is widely in use today and there is no requirement for the dealer to also act as the custodian. We anticipate this to be the same for the done-away model.

Furthermore, custodians will not need to be FICC members.

[14] DTCC Press Release - Feb 24 2025

C. J.P. Morgan offering

16. What will J.P. Morgan's offering be for U.S. Treasury cash and repo, in response to the mandate?

J.P. Morgan is committed to supporting clients to maintain access to U.S. Treasury markets, and will offer a number of different services to support requisite clearing requirements. These services are likely to evolve as the market landscape matures.

The Sponsored done-with model will continue to be offered through J.P. Morgan's Fixed Income Financing desk. Where a model includes done-away activity, the offering will sit with Prime Financial Services (PFS), to ensure the appropriate segregation of data from the Principal Trading Desk.

Sponsored done-with: The Sponsored done-with model effectively bundles execution and clearing together. J.P. Morgan will continue to offer the Sponsored done-with model for our clients to meet the mandate's obligations for repo trades.

Sponsored Gross SIPA Segregated done-away: Under the Sponsored done-away model a client may execute with a party other than the Sponsoring Member or Agent Clearing Member, but will clear via the Sponsoring Member or Agent Clearing Member. J.P. Morgan is reviewing this model. Initial margin will be collected from the client to cover the activity, with margin calculated on a Gross basis.

Agent Net done-away (margin) done-away: J.P. Morgan will support the net non-segregated model for clients, where they are Executing Firm Customers of J.P. Morgan as Agent Clearing Member. Client activity will be held in an Agent Clearing Member omnibus account. Initial margin will be collected from the client to cover the activity, with margin calculated on a net basis.

Agent Gross (margin) done-away: J.P. Morgan will also support the gross margin model for clients, where they are Executing Firm Customers of J.P. Morgan as Agent Clearing Member. Client activity will be held in client-segregated Agent Clearing Member omnibus accounts. Initial margin will be collected to cover the activity, with margin calculated on a gross basis.

Cross-margin: J.P. Morgan has a market leading derivatives clearing franchise, and plans to support CCP cross-margining for clients, if FICC and the CME achieve the requisite regulatory approval from the SEC and CFTC, respectively . This will only be available to those clients utilizing a gross-segregated model, on a done-away basis. In addition, if an Agency Net done-away model is opted for, clients may be in scope for a broader broader J.P. Morgan house cross-margining offsets across their overall F&O and OTC Cleared positions. See Q14. What U.S. Treasury cross-margin offerings are available in the industry and within J.P. Morgan? for further detail.

Clients are encouraged to contact their J.P. Morgan representative to discuss their requirements, if they are interested in receiving future updates on any of our Treasury clearing offerings.

17. Which CCAs will J.P. Morgan support?

As mentioned above, J.P. Morgan will provide U.S. Treasury clearing services via FICC. We will also continue to engage with other potential clearing providers as their strategy evolves.

At the time of writing, only FICC has SEC approval to act as CCP for the mandated activity.

18. How are J.P. Morgan clients impacted?

For clients who are FICC members, their in-scope activity will need to be cleared.

Clients who are not FICC members, but trading with a J.P. Morgan entity that is a FICC member (JPMS LLC, JPMCB NA and all branches) will also require in-scope activity to be cleared, as per the mandate scope outlined in: *Q2: What are the requirements of the mandate and what entities / trades does it apply to?, and exceptions referenced in Q6: What trades and / or participants are exempt from the mandate?.*

19. Can J.P. Morgan clients onboard to the Agent model today, or is the Sponsored model the only immediately available access route?

For cash: J.P. Morgan's FIPB business already clears all U.S. Treasury cash trades via FICC under the Agent Net done-away (margin) model mentioned in Q16. For clients requiring a cash clearing service (aligned with FIPB services) to meet the 2025 cash clearing mandate, they should contact a J.P. Morgan representative to discuss requirements. The same client setup will subsequently enable the client to clear their done-away UST repo activity in a seamless manner.

For repo: Clients can onboard to the Sponsored done-with model today with J.P. Morgan.

The J.P. Morgan repo client clearing offering under the Agent model is being developed, working alongside the industry, with key focus being placed on:

- appropriate client clearing legal documentation, including provisions for done-away activity;
- balance sheet treatment for Agent cleared transactions;
- capital and liquidity analysis, and establishment of clearing limit frameworks;
- CCP clearing models and margin treatment; and
- assessment of changes to the customer protection regime (15c3-3).

Updated information relating to the expanded offering will be communicated to clients once further details are available.

20. What will be the J.P. Morgan Sponsored model offer when the mandate goes live?

Repo trades – J.P. Morgan will continue to offer Sponsored done-with clearing access to our clients. J.P. Morgan is in the process of papering remaining clients who do not currently have FICC Sponsored done-with access. These counterparties will need to enter into legal agreements governing Sponsored done-with transactions, as well as get onboarded to FICC as Sponsored Members.

Cash trades – Much of our in-scope cash activity is being cleared today. For the remaining in-scope activity, the expectation is the counterparty will need to either (1) join FICC or (2) procure the services of a done-away clearing provider. J.P. Morgan is yet to determine whether a Sponsored done-with model will be offered for cash trades.

In Addition, J.P. Morgan will also offer a Sponsored Gross SIPA Segregated done-away offering for both Cash and Repo trades. See Q16 for further details.

21. What are the requirements for clients to establish a Sponsored 'Done With' clearing relationship?

Clients using the Sponsored 'done with' model to clear will be required to complete documentation for each of their executing brokers.

We are expecting to begin working with clients that are not yet onboarded in the coming months. Clients who would like to know more about becoming a Sponsored FICC member via J.P. Morgan are advised to reach out to their J.P. Morgan FIF Sales or Trading representative.

22. Will margin requirements change under the Sponsored model change?

As the volume of Sponsored clearing increases for J.P. Morgan and other broker dealers, the demand on dealers to continue to fund Sponsored margin could meaningfully increase. As such, J.P. Morgan is currently working through implications and potential solutions to address this scenario, including the ability for clients to onward-post margin requirements.

23. What Agent clearing capabilities will J.P. Morgan offer?

J.P. Morgan plans to offer an Agent clearing service, to support done-away activity. This will allow our clients to trade with a full range of repo providers, with the clearing, margin collection, processing, settlement and custody activities being handled by J.P. Morgan's Agent clearing service. If the client elects to use their existing custodian, J.P. Morgan will also support this model.

Pricing levels for the Agent clearing service are under review, with a focus and dependency on determining balance sheet treatment for Agent cleared transactions, and J.P. Morgan capital and liquidity analysis for both net and gross margined models.

In the Agent clearing arrangement, J.P. Morgan is required to guarantee the performance of clients to the CCP and, as a result, we will establish and monitor position limits for this activity prior to the acceptance of trades for clearing.

24. Will there be changes to J.P. Morgan's Fixed Income Prime Brokerage (FIPB) solutions, and what will be the requirements of clients to access these?

J.P. Morgan is committed to supporting existing FIPB clients adhere to the SEC regulation with minimal impact to their existing FIPB solutions.

Some key considerations for existing FIPB clients include:

Legal Documentation – Consideration is being given to what potential amendments would be required for the existing Institutional Account Agreement (Prime Brokerage Agreement) and Fixed Income Clearing (FIC) Supplement to accommodate activity under any of the new models, including Sponsored done-away, agency net margin and agency gross margin models.

Risk and margin – The risk profile is fundamentally different for centrally cleared trades. Existing FIPB clients pay a clearing deposit but do not pay initial or variation margin. The clearing deposit is a stress-based calculation tailored to standard FIPB risk for bi-lateral trades between FIPB clients and repo brokers, and relies on the ability of the FIPB to decline to provide settlement for trades which are not fully funded in cash or securities.

For centrally cleared trades, the clearing agent guarantees the performance of the client. Therefore, J.P. Morgan anticipates calling the client for initial and variation margin. J.P. Morgan is evaluating current CCP margin frameworks relative to the J.P. Morgan house methodology. Currently we do not see a case for applying a clearing deposit to centrally cleared trades, but this is under review.

Existing U.S. Treasury cash clients – J.P. Morgan currently sends all FIPB client cash trades to FICC for clearing. As a result, J.P. Morgan will be required to complete a FICC Executing Firm Letter on behalf of all existing FIPB clients currently clearing U.S. Treasuries in their FIPB account. The letter should include the name, Legal Entity Identifier (LEI), and symbol of their firm. This form is standard across all Agent clearing providers and is a FICC requirement. There is also an amendment to the J.P. Morgan Prime Brokerage Agreement related to this requirement and impacted existing FIPB clients should have already received the amendment and been in touch with their J.P. Morgan client coverage.

These changes are required to comply with FICC rule changes in response to the SEC mandate related to customer segregation.

FIPB Pricing – Any changes to the economics of the FIPB product are not yet clear and will ultimately depend on margin levels, SEC Rule 15c3-3 requirements, capital, funding requirements and balance sheet treatment for Agent cleared transactions.

25. What will be required of new clients who wish to access J.P. Morgan's PFS client offering?

Clients can onboard with J.P. Morgan's Agency Done-Away live UST Cash clearing model today using our existing legal documentation. See Q19 Can J.P. Morgan clients onboard to the Agent model today, or is the Sponsored model the only immediately available access route? for further details.

J.P. Morgan continues to represent on the SIFMA industry working group drafting Standardized Master Agreements supporting available clearing access models.

Onboarding requirements for the new clearing models for both new and existing clients will be clarified when the documentation is available.

In addition to our engagement in the industry working group we are working to ensure onboarding for both new and existing clients is as streamlined as possible and that a single agreement may cover optionality of client clearing model elected.

26. How will limits be defined, monitored and managed?

For Agent / done-away cleared transactions, the Clearing Member guarantees to the CCP to settle all trades submitted and accepted for clearing. As a result, it will be necessary to define clearing limits which reflect J.P. Morgan's credit exposure appetite.

J.P. Morgan is working closely with industry bodies and third party providers, drawing on experience from derivatives clearing, to establish a function to check against clearing limits at time of trade.

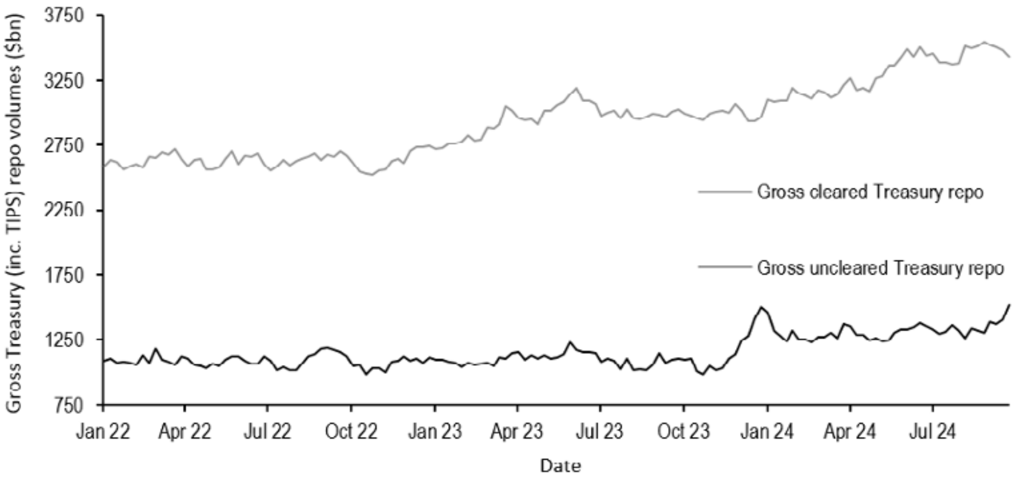
D. Other FAQs

Clearing market landscape and impact

27. What is the level of Treasury clearing activity at FICC, prior to the mandate going live, and how is this expected to change?

As of June 2024, FICC was processing an average of $7.5tn per day across all GSD activity, and DTCC survey response data suggests that clearing volumes may rise by more than $4tn in daily incremental indirect participant Treasury activity, with the introduction of the mandate[15].

According to New York Fed data, and as illustrated in the diagram below, only about 30% of the Treasury repo market is currently cleared. Much of the remainder would be required to move to central clearing[16].



28. What is the industry appetite for each access model:

Survey-based research suggests that expanding the done-with Sponsored model, which is widely used today, is the preferred 'day one' solution across both buy and sell-side, although appetite for the Agent model is increasing, particularly as market participants learn more about it. Clients have also been keen to understand how they can access done-away clearing under both Sponsored and Agent models, to preserve execution access for non-sponsoring dealers and gain margin efficiency. Some summary details of relevant survey-based research are included below.

July 2024 DTCC sell-side survey summary[17]:

- 74% plan to provide clearing via the Sponsored model
- 43% plan to offer the Agent model

June 2024 J.P. Morgan client outreach summary[18]:

- 75% of clients have access to the Sponsored model for repo
- Hedge Funds have an average of 6+ Sponsors for overnight repo
- 81% will explore alternatives to Sponsored clearing, of which 90% will seek access to Agent clearing

[15] The U.S. Treasury Clearing Mandate: An Industry Pulse Check, DTCC, July 2024
[16] Gross uncleared and cleared Treasury (inc. TIPS) repo volumes ($bn), New York Fed and J.P. Morgan, September 2024
[17] The U.S. Treasury Clearing Mandate: An Industry Pulse Check, DTCC, July 2024
[18] J.P. Morgan client survey (56 respondents) and targeted outreach to top 20 balance sheet users / PFS clients, June 2024

We expect the proportion of Agent cleared trades to increase in the months following the mandate going live, in order for participants to realize additional potential benefits, including cross-margin and access to a wider range of repo providers.

29. How does J.P. Morgan see the U.S. Treasuries clearing landscape changing in the period after the mandate goes live?

We would expect a substantial uptick of Sponsored volumes even prior to go-live as our clients will want to test those flows in anticipation of the mandate. Eventually, we would expect some volume to move away from Sponsored clearing to a done-away model.

Introduction of the done-away model into the market will impact trade flow and execution, given proposed credit and limit checks requested by clearing brokers to support the process (likely mirroring the market structure in other cleared products).

30.What will be the impact of increased competition in the CCA landscape?

As per a Coalition Greenwich Q2 2024 survey of both buy and sell-sides, published in September 2024, there are mixed opinions as to whether new entrants challenging FICC will offer net benefit to the market, with 44% of respondents stating that it is "too early to say"[19]. Example factors at play include:

- Pricing and product innovation as a result of competition;
- Avoidance of a single point of failure; and
- Operational, technology and infrastructure challenges of working with multiple CCAs.

31. What impact could the mandate have on pricing?

While the overall impact of the mandate on pricing, both in the immediate and longer-term, are unknown, there are meaningful operational and regulatory considerations that may offset the balance-sheet netting and capital efficiency benefits to broker-dealers of clearing U.S. Treasury repos.

The done-with member Sponsored model will require dealers to:

- Post additional capital into FICC's Clearing Fund, on account of their clients' trading activities;
- Provide a guaranty to FICC with respect to the obligations of their Sponsored Members; and
- In some instances, post additional liquidity at FICC's Capped Contingent Liquidity Facility (CCLF).

In some instances, dealers may look to pass a proportion of these additional costs on to their clients via increased bid-ask spreads.

There may also be a secondary pricing impact of smaller broker-dealers exiting the U.S. Treasury repo market due to increased up-front capital and liquidity requirements, reducing the number of Sponsoring brokers in the market, and thus reducing competition[20].

The September 2024 Coalition Greenwich report indicated that most parties believe that the cost of trading across cash and repo will increase in the two years following implementation[21].

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[19] The Impact of Treasury and Repo Clearing Mandates: The Industry View, Coalition Greenwich, September 2024
[20] Get in the Clear: FAQs on Treasury Repo Clearing, J.P. Morgan (only accessible to readers with J.P. Morgan Markets access), April 2024
[21] The Impact of Treasury and Repo Clearing Mandates: The Industry View, Coalition Greenwich, September 2024

Related regulatory developments

32. How will the mandate be impacted by Basel III End-Game and other regulations related to Globally Systemically Important Banks (G-SIB)?

The industry is working through the potential impacts of the SEC's final rule on bank capital requirements, including G-SIB, Supplementary Leverage Ratio (SLR), and risk weighted assets (RWA). This includes analysis of the potential impact of the US Basel III End-Game proposal (on the assumption that it is adopted as originally proposed) on the ability of banks to recognize cross-product netting, which is an important consideration for cross product margining, including between fixed income derivatives and repo.

33. How could the SEC's proposed 'definition of a dealer' changes affect the scope of the clearing mandate?

On February 6, 2024 the SEC finalized a rule to expand the definitions of "dealer" and "government securities dealer" (GSD)[22], which would have scoped more participants into the UST clearing mandate by requiring firms to register with the SEC as dealers).

However, the rule was subsequently vacated by a US Federal Court and the expanded definition is now not expected to go into effect.

34. How have regulators in other regions responded to the UST clearing mandate?

Central clearing of government bond and repo markets continues to be a focus for global standards setters[23].

Regulators in the EU and UK have indicated that they are watching the developments in the U.S. closely, but, at the time of writing, do not have current plans to introduce similar mandates.

- LCH Limited (gilts), LCH SA and Eurex (Euro debt) provide repo clearing services. However, there has been limited adoption of client repo clearing, in the absence of a regulatory mandate.
- We are also seeing other global regulators contemplate central clearing for their domestic government debt markets. For example, in July 2024, the Australian Council of Financial Regulators (CFR) released a consultation paper to support reassessment of central clearing of bonds and repos[24].

35. How will the change in administration impact the SEC US Treasury Clearing Mandate?

Gary Gensler, who led the SEC at the time that the U.S. Treasury central clearing rule was finalized, left the agency on January 20, 2025.[25] Paul Atkins, a lawyer and former SEC Commissioner between 2002 and 2008, has been nominated by President Trump to serve as the SEC Chair, subject to Senate confirmation. In the interim, Mark Uyeda has been named Acting Chair at the SEC.

Public statements regarding the UST clearing mandate from current leadership at the SEC have focused on addressing further operational and risk management changes to facilitate proper implementation. Acting Chair Mark Uyeda has stated that "The Commission stands ready to engage with market participants on issues associated with implementation."[26]

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[22] Final Rules: Changes to Definition of Dealer and Government Securities Dealer, SEC, February 2024
[23] BIS Bulletin 92: Central clearing in government bond markets: keeping the "safe asset" safe?, Bank for International Settlements, September 2024
[24] Consultation on Central Clearing of Bonds and Repos in Australia, Council of Financial Regulators, July 2024
[25] SEC Chair Gensler to Depart Agency on January 20, SEC
[26] SEC Extends Compliance Dates, SEC

Pre-implementation challenges and 'watch items'

36. What are some of the outstanding industry gaps and challenges related to the done-away model?

Examples of open issues related to the done-away clearing model that the industry is working through, as at October 2024, include[27]:

- Development of standardized done-away legal documentation is required.
- Inter-party technology and process:
  - Development of pre-trade check solutions for done-away trades (to ensure clients are within clearing firm limits) will be required.
  - Development of trade affirmation and notification solutions between executing and clearing parties will be required.
  - Development of processes for submitting done-away trades will be required.
  - Development of processes to address trades which fail to clear, or cannot be cleared, will be required.
- Balance sheet implications:
  - Done-away accounting treatment will need to be confirmed (e.g. whether done-away activity is treated as off-balance sheet for the clearing member).
  - Regulatory capital impact (e.g. Basel III Endgame implications): increased regulatory capital for clearing members may reduce their ability to provide balance sheet capacity to clients.
- Default management:
  - Agreed approach for porting client (indirect member) positions, where a direct member defaults, is not yet defined.
  - Agreed approach for closing out client (indirect member) positions where the client defaults is not yet defined.
- Commercial framework and calculations for charging done-away activity are not yet in place.

37. What are some of the industry challenges and issues related to margin, in the context of the mandate?

Examples of open issues related to margin that the industry is working through, as at October 2024, include[28]:

The scope of triparty activity subject to the clearing mandate (including treatment of triparty shells with non-FICC eligible securities) is currently unknown.

- **Note:** SIFMA is requesting relief from the requirement to centrally clear triparty repos, where the intent of the seller and buyer is to finance securities that are not U.S. Treasuries.

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[27] U.S. Treasury and Repo Clearing Considerations Report- Workshop #8 – Capital Considerations and Reference Data, SIFMA, September 2024
[28] U.S. Treasury and Repo Clearing Considerations Report- Workshop #8 – Capital Considerations and Reference Data, SIFMA, September 2024

Client collateral management:

- There is a lack of clarity as to whether multiple margin calls for a single access model will be required, in the context of the implied distinct separation of margin collection and cash / collateral posted by "Deposit ID", according to the new rulebook (Rule 4, Section 2b).

Margin call timelines:

- Solutions will be required to ensure firms' margin call calculations replicate FICC's, in order to deliver against start-of-day and intraday calls.
- Further clarity is required on scenarios where clearing providers are unable to pre-fund segregated client margin obligations with cash, instead substituting with securities and having cash delivered by clients following the cut-off. These challenges include meeting 15c3-3 requirements.

38. What other unresolved industry challenges related to the mandate are noteworthy?

Examples of broader open issues that the industry is working through, as at October 2024, include[29]:

Domicile challenges:

- Market participants have only obtained netting / close-out opinions in a limited number of jurisdictions and there are currently no industry-level opinions available, impeding ability for accounts in the jurisdictions where opinions have not been obtained to access clearing.
- FICC currently only permits access from c.26 jurisdictions (as at July 2024, approved jurisdictions for FICC Sponsored Members are listed here[30]).
- Various fund / account types face issues obtaining Sponsored FICC access, due to local regulatory requirements. Examples include EU-regulated Undertakings for Collective Investment in Transferable Securities (UCITS) funds, and potentially EU Alternative Investment Funds (AIFs) and Australian superannuation funds.

There is some demand for FICC to begin reporting trades missing symbols and requiring remediation in run-up to go-live, to support transition readiness. This has not yet been agreed to.

Many of the aforementioned challenges related to FICC, as well as interoperability (including cross-margining) considerations will further come into play as additional CCAs enter the market.

39.How is J.P. Morgan plugged in to industry developments?

J.P. Morgan leadership continues to engage in bilateral and industry advocacy working groups and workstreams, including responses being put forward by FIA, ISDA and SIFMA.

We also continue to engage with the SEC and U.S. Federal Agencies.

40. Any FICC Rule fillings related to the Treasury clearing mandate since the last FAQ publication date?

SEC has approved:

- SR-FICC-2024-005
- SR-FICC-2024-007

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[29] U.S. Treasury and Repo Clearing Considerations Report- Workshop #8 - Capital Considerations and Reference Data, SIFMA, September 2024
[30] Jurisdictions Approved by FICC for Sponsored Members, DTCC, July 2024

E. Other informational resources

J.P. Morgan

- Get in the Clear: FAQs on Treasury Repo Clearing

April 2024 FAQs produced by J.P. Morgan US Fixed Income Strategy Research. This content is hosted on the J.P. Morgan Markets portal. Clients are advised to speak to their J.P. Morgan representative for access.

- FICC Market Structure & Liquidity Strategy

FICC Market Structure & Liquidity team's J.P. Morgan Markets page, including various resources which cover the mandate

- To request to be subscribed to the team's content, contact: ficc_market_structure_team@jpmorgan.com.

DTCC:

- FICC-2024-005

  FICC SEC filing: includes proposed rule changes related to access models (including the Agent clearing model), and membership qualifications

- FICC-2024-802

  FICC SEC filing: includes proposed rule changes related to account structures and segregation

- FICC-2024-009

  FICC SEC filing: includes proposed rule changes related to which transactions must be cleared, how the FICC will monitor compliance, and proposals related to standards for membership

- U.S. Treasury Clearing

  DTCC U.S. Treasury Clearing microsite, offering various resources and updates related to the mandate

- The U.S. Treasury Clearing Mandate: An Industry Pulse Check

  July 2024 white paper based on an industry sell-side survey, with 83 respondents, including J.P. Morgan

- U.S. Treasury Clearing: Impact on the Buy-Side

  Brief July 2024 article outlining buy-side participant considerations

SEC:

- 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

  U.S. Treasury Clearing Mandate Final Rule in full (conformed to Federal Register version)

- Improving Risk Management and Increasing Clearing in U.S. Treasuries

  U.S. Treasury Clearing Mandate fact sheet

- Statement on Final Rules Regarding Treasury Clearing

  SEC Chair, Gary Gensler, December 2023 statement on the mandate

- SEC Adopts Rules to Improve Risk Management in Clearance and Settlement and Facilitate Additional Central Clearing for the U.S. Treasury Market

  December 2023 press release confirming adoption of the mandate

- SEC Extends Compliance Dates and Provides Temporary Exemption for Rule Related to Clearing of US Treasury Securities

  SEC press release regarding extension to compliance dates

Industry bodies and third parties:

- SIFMA – Treasury Clearing

  SIFMA webpage with various resources related to the mandate, including standard documentation
  and podcasts

- Deloitte – Final rule on US Treasury clearing

  May 2024 white paper outlining impact and transformation considerations for market participants

- EY – Thought Leadership from EY on UST Clearing

  February 2024 white paper outlining impact and transformation considerations for market participants

- TBAC - Developments in Central Clearing in the U.S. Treasury Market
  February 2025 Resource

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For additional information, please contact your J.P. Morgan representative.