ENHANCING THE RESILIENCE OF THE U.S. TREASURY MARKET: 2023 STAFF PROGRESS REPORT

U.S. Department of the Treasury

Board of Governors of the Federal Reserve System

Federal Reserve Bank of New York

U.S. Securities and Exchange Commission

U.S. Commodity Futures Trading Commission

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This is a report of staff findings 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. The report represents only the views of staff, and the organizations listed above have expressed no view regarding the analysis, findings, or conclusions contained herein.

Section 1: Introduction

The Treasury market remains the deepest and most liquid market in the world and a central component of the financial system. In response to evolution in the markets as well as several episodes of abrupt deterioration in market functioning, the relevant authorities in the Treasury markets began an extensive program of analysis and policymaking in 2021 to help ensure that the market continues to reliably fulfill its vital role. The authorities provided updates on those efforts in Staff Progress Reports issued in 2021 and 2022.[1] This paper describes the authorities' progress in support of these objectives over the past year and outlines policy areas where further consideration is ongoing.

The relevant authorities in the Treasury markets collaborate to ensure effective surveillance and coordinated policymaking. The views presented here are those of the Inter-Agency Working Group for Treasury Market Surveillance (IAWG), which consists 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 (FRBNY), the Securities and Exchange Commission (SEC), and the Commodity Futures Trading Commission (CFTC).[2]

As discussed in the Staff Progress Report issued in 2021, the authorities have three primary objectives in the Treasury market:

> First, as the issuer of Treasury securities, the Treasury Department seeks to finance the federal government at the lowest cost to the taxpayer over time. Second, the authorities aim for the Treasury market to support the broader financial system. The market does so by serving as a source of safe and liquid assets that support the efficient, stable flow of capital and credit to households and businesses, and by establishing a benchmark credit-risk-free yield curve. Third, the Federal Reserve implements monetary policy partly through transactions in the Treasury market. More broadly, the smooth operation of the Treasury market is important to the transmission of the stance of monetary policy to broader financial conditions and the U.S. economy.

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[1] See U.S. Department of the Treasury, Board of Governors of the Federal Reserve System, Federal Reserve Bank of New York, U.S. Securities and Exchange Commission, and U.S. Commodity Futures Trading Commission, 2021, "Recent Disruptions and Potential Reforms in the U.S. Treasury Market: A Staff Progress Report," November 8, available at https://home.treasury.gov/system/files/136/IAWG-Treasury-Report.pdf; and U.S. Department of the Treasury, Board of Governors of the Federal Reserve System, Federal Reserve Bank of New York, U.S. Securities and Exchange Commission, and U.S. Commodity Futures Trading Commission, 2022, "Enhancing the Resilience of the U.S. Treasury Market: 2022 Staff Progress Report," November 10, available at https://home.treasury.gov/system/files/136/2022-IAWG-Treasury-Report.pdf.

[2] The IAWG was formed by the Treasury Department, SEC, and Board of Governors of the Federal Reserve System in 1992 to improve monitoring and surveillance and strengthen interagency coordination with respect to the Treasury markets following the Salomon Brothers auction bidding scandal. See U.S. Department of the Treasury, Securities and Exchange Commission, and Board of Governors of the Federal Reserve System, 1992, "Joint Report on the Government Securities Market," U.S. Government Printing Office, January 22, available at https://home.treasury.gov/system/files/276/joint-report-on-the-government-securities-Market-1992.pdf.

The IAWG's assessment of policy options remains grounded in recent experience with Treasury market stresses and in principles that the IAWG staffs have judged should guide public policy in the Treasury market. These principles are:

1. Resilient and elastic liquidity;
2. Transparency that fosters public confidence, fair trading, and a liquid market;
3. Prices that reflect prevailing and expected economic and financial conditions;
4. Economic integration across cash, funding and derivatives markets;
5. Financing that does not pose a significant threat to financial stability; and
6. Infrastructure that operates effectively and efficiently.

Over the past year, the IAWG has continued to make significant progress toward its goals, building on the work of previous years. IAWG member institutions and staffs have, among other steps:

- announced plans to implement a Treasury buyback program in 2024;
- adopted amendments requiring certain firms that are significantly involved in the proprietary trading of Treasury securities to become members of the Financial Industry Regulatory Authority (FINRA) and report their Treasury transactions to FINRA's Trade Reporting and Compliance Engine (TRACE);
- approved further enhancements to the public release of data on secondary market transactions in on-the-run Treasury securities;
- adopted changes to SEC Form N-MFP that will provide, among other items, more granular information about activity of money market funds in the Treasury repurchase agreement (repo) market;
- adopted changes to SEC Form PF that will enable better monitoring of the activity of liquidity funds and will draw clearer distinctions between cash and derivatives activity in the Treasury markets;
- adopted rules requiring reporting of the terms of securities lending transactions in a timely manner; and
- approved changes that will expand cross-margining between central counterparties that clear cash and derivatives transactions related to Treasury securities and improve the management of member defaults.

The IAWG's recent work has been structured in five workstreams: improving resilience of market intermediation, improving data quality and availability, evaluating expanded central clearing, enhancing trading venue transparency and oversight, and examining effects of leverage and fund liquidity risk management. This report describes notable developments in the Treasury markets over the past year and then reviews progress on each of the workstreams in turn, noting that there are important potential interactions across the workstreams. In the future, the IAWG member institutions may take additional steps beyond the scope of the current workstreams.[3]

[3] This report reflects developments through October 27, 2023.

Section 2: Notable developments in the Treasury markets

The Treasury markets displayed resilience in 2023 despite experiencing notable volatility both early in the year, as banking stresses led to a dramatic repricing of term risk-free rates, and in the fall, as long-term interest rates increased. In mid-March, the ICE BofA MOVE index of Treasury volatility reached levels not seen since the 2008 Global Financial Crisis. FINRA TRACE recorded $720 billion in dealer-to-customer trading on March 14, 2023. This is the highest level reported since daily volumes were first published on February 13, 2023, exceeding all the typical month-end volume spikes. At $2.65 trillion, the dealer-to-customer volume for the week of March 13, 2023, was the second highest observed since the January 2019 start of the currently available public weekly series, behind only the week of February 22, 2021, when $2.73 trillion in Treasuries were traded. Alternative trading system (ATS) and interdealer trading volumes increased significantly during this period as well, hitting a daily series high of $849 billion on March 13. However, despite the heightened volatility and trading volume, fails to deliver and other indicators of stress remained within the historical ranges.

The year also saw notable developments in Treasury issuance, the Treasury Department's announcement of a planned buyback facility, shifts in the Federal Reserve's balance sheet, and the substantive completion of the transition of reference rates from the London Interbank Offered Rate (LIBOR) to rates including the Secured Overnight Financing Rate (SOFR), which is based on Treasury repo transactions.

A. Treasury issuance

On January 19, 2023, the outstanding debt of the United States reached its statutory limit, and Treasury needed to take extraordinary measures to prevent a default on its obligations.[4] Debt limit constraints on issuance subsequently led to a substantial decline in the cash balance in the Treasury General Account (TGA), which is effectively the government's checking account at the FRBNY. The TGA contained $447 billion at the beginning of the year, but by June 1 it held only $23 billion, the lowest balance since October 2015.

The Fiscal Responsibility Act of 2023 became law on June 3, suspending the debt limit through January 1, 2025. Four days later, Treasury provided additional guidance regarding the expected path of Treasury bill issuance and its plans to gradually rebuild its cash balance over time to a level more consistent with Treasury's cash balance policy.[5]

Treasury structured the increases in issuance to capitalize on the deepest pools of potential demand. In response to Treasury's survey ahead of the May 2023 quarterly refunding, primary dealers cited elevated money market mutual fund (MMF) assets under management and the more than $2 trillion invested at the time in the Federal Reserve's overnight reverse repurchase agreement (ON RRP) facility as evidence of significant demand for short-dated, high-

[4] See Letter from Treasury Secretary Janet Yellen to Speaker Kevin McCarthy dated January 19, 2023, available at https://home.treasury.gov/system/files/136/Debt-Limit-Letter-to-Congress-20230119-McCarthy.pdf.
[5] See U.S. Department of the Treasury, 2023, "Treasury provides additional guidance on bill issuance and cash balance," June 7, available at https://www.treasurydirect.gov/instit/annceresult/press/preanre/2023/SPL_20230607_1.pdf.

quality liquid assets.[6] Dealers also recommended that the largest increases occur in shorter-tenor bills.[7]

As a result, initial increases in bill issuance focused on shorter tenors. For example, the 1- and 2-month benchmarks, whose offering sizes had been reduced the most during the debt limit impasse, saw the largest increases once the debt limit was suspended. Treasury also announced the introduction of a regular 6-week cash management bill (CMB), to be issued on a weekly basis, which further increased supply at the very front end of the curve.

By the end of September, the supply of bills increased by approximately $1.27 trillion versus end-of-May levels. Over a four-month period, this represents the second-largest increase in history (behind 2020) in dollar terms and the third largest (behind 2008-2009 and 2020) in percentage terms. As anticipated, MMFs significantly increased their allocation to Treasury bills over the same timeframe. According to SEC Form N-MFP data, MMF holdings of Treasury bills grew by nearly $850 billion between the end of May and the end of September, which represents an almost 150% increase. This accompanied a decline of approximately $700 billion in balances in the Federal Reserve's ON RRP facility, of which MMFs accounted for roughly 80%. Feedback from market participants indicates the increase in issuance has been absorbed smoothly.[8]

Projections for the federal government's borrowing needs rose considerably over the past year.[9] With that in mind, at the August quarterly refunding, Treasury announced increases to coupon auction sizes and noted that "further gradual increases will likely be necessary in future quarters."[10] The 2-, 5-, and 10-year nominal coupon auctions grew faster than surrounding tenors to maintain the structural balance of supply and demand across the curve. Conversely, the 7- and 20-year nominal coupon auctions rose more slowly, consistent with feedback received from primary dealers and the Treasury Borrowing Advisory Committee.[11] With respect to bills, Treasury announced that issuance of the regular 6-week CMB would continue at least through the end of the calendar year.

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[6] For background on the ON RRP facility, see https://www.federalreserve.gov/monetarypolicy/overnight-reverse-repurchase-agreements.htm.

[7] See Treasury Borrowing Advisory Committee, 2023, "Minutes of the Meeting of the Treasury Borrowing Advisory Committee," press release, May 2, available at https://home.treasury.gov/news/press-releases/jy1462.

[8] See Treasury Borrowing Advisory Committee, 2023, "Minutes of the Meeting of the Treasury Borrowing Advisory Committee," press release, August 1, available at https://home.treasury.gov/news/press-releases/jy1669.

[9] See Slide 19 of "Treasury Presentation to the Treasury Borrowing Advisory Committee," August 2023, available at https://home.treasury.gov/system/files/221/TreasuryPresentationToTBACQ32023.pdf.

[10] See Josh Frost, 2023, "Quarterly Refunding Statement of Assistant Secretary for Financial Markets Josh Frost," press release, August 2, available at https://home.treasury.gov/news/press-releases/jy1671.

[11] See Deirdre K. Dunn and Colin Teichholtz, 2023, "Report to the Secretary of the Treasury from the Treasury Borrowing Advisory Committee," August 1, press release, available at https://home.treasury.gov/news/press-releases/jy1670.

B. Plans for buyback program

At the May 2023 Quarterly Refunding, Treasury's Office of Debt Management (ODM) announced its intention to implement a buyback program in calendar year 2024. The program will focus on two key debt management objectives.[12]

The first objective is liquidity support. Buybacks would bolster market liquidity by establishing a predictable opportunity for market participants to sell off-the-run securities, or those that are more seasoned than the most recently issued security at a given tenor. The second objective is cash management. Treasury will buy back securities to reduce volatility in its cash balance and bill issuance.

Buybacks undertaken in support of both objectives could improve Treasury market functioning while also complementing other efforts that IAWG member institutions have undertaken to improve the resilience of the Treasury market. For example, the improved liquidity in off-the-run securities provided by buybacks may reduce volatility and narrow the spread between on- and off-the-run securities. Buybacks also align with the ODM's fundamental objective of financing the government at the least cost over time.

As with its primary issuance, Treasury intends for its buyback operations to be regular and predictable, as such a program could provide the greatest benefits to all stakeholders. Treasury will purchase nominal securities and Treasury inflation-protected securities (TIPS) across all tenors. Buybacks will not be used to fundamentally change the overall maturity profile of the debt outstanding. Rather, Treasury plans to continue to adjust the maturity profile by changing issuance as borrowing needs evolve. Initially, buyback operations will be conducted only with primary dealers, with the understanding that customers may access buyback operations through a primary dealer. Treasury anticipates assessing the potential costs and benefits of allowing other counterparties to participate directly.

Liquidity support purchases will take place regularly, with purchase operations cycling across the entire range of tenors for nominal securities and TIPS. In contrast, cash management purchases will take place primarily in nominal securities with less than two years remaining to maturity and will be more seasonal, likely occurring around tax payment dates.

Treasury will initially purchase up to $30 billion per quarter for liquidity support and up to $120 billion per year for cash management. The size of the program will be reviewed periodically. Treasury does not plan to establish a fixed minimum amount to buy back in operations for liquidity support or for cash management. Actual buyback amounts will depend on market conditions and quality of offers in an operation, and it is possible that Treasury may not buy back any securities during a given operation. Also, because Treasury will generally need to borrow to finance its buyback purchases, buybacks will not be used to mitigate episodes of acute market stress, such as those seen in March 2020.

Treasury will regularly evaluate the success of the buyback program by considering qualitative metrics including surveys and feedback from market participants as well as

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[12] See Josh Frost, 2023, "Remarks by Assistant Secretary for Financial Markets Josh Frost at the International Swaps and Derivatives Association Derivatives Trading Forum," September 21, press release, available at https://home.treasury.gov/news/press-releases/jy1757.

quantitative metrics related to buyback execution prices. Treasury is still researching issues including pricing, per-CUSIP purchase limits, and logistical details related to operation timing.

C. Evolution of the Federal Reserve's asset holdings

The process of reducing the Federal Reserve's System Open Market Account (SOMA) portfolio first began in June 2022, after total assets of the Federal Reserve reached a high of $8.97 trillion in the second quarter of 2022. Consistent with the Federal Open Market Committee's "Plans for Reducing the Size of the Federal Reserve's Balance Sheet,"[13] maturing domestic securities holdings are redeemed rather than reinvested, up to a monthly cap. The monthly redemption caps are separated by asset class. Up to $60 billion in Treasury securities and up to $35 billion in agency debt and agency mortgage-backed securities are redeemed per month. Redemptions of Treasury securities from the SOMA portfolio imply, all else equal, that Treasury must sell more securities to other investors.

Since the start of balance sheet reduction, the size of the Federal Reserve's SOMA portfolio has declined by $1.09 trillion. This year through October 18, the SOMA portfolio has declined by approximately $710 billion, with Treasury securities accounting for approximately $540 billion of the decline.

D. Completion of LIBOR transition and switch to SOFR

On June 30, 2023, the USD LIBOR panel members made their final submissions, marking the end of LIBOR as a benchmark rate representative of unsecured wholesale bank funding costs. In its place, SOFR has been widely adopted across both derivative and cash markets and has become the predominant alternative reference rate to LIBOR. SOFR measures the cost of borrowing cash overnight in the repo market, collateralized by Treasury securities. Unlike LIBOR, which was based on the very thin markets for unsecured bank borrowing and typically relied on expert judgement, SOFR is a fully transactions-based rate and is underpinned by a daily average of more than $1 trillion in transaction volumes.[14] The development of SOFR-based over-the-counter and exchange-traded derivatives markets provides market participants with highly liquid mechanisms to hedge movements in Treasury repo rates.

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[13] Board of Governors of the Federal Reserve System, "Plans for Reducing the Size of the Federal Reserve's Balance Sheet," 2022, available at https://www.federalreserve.gov/newsevents/pressreleases/monetary20220504b.htm.

[14] Further information on SOFR is available at https://www.newyorkfed.org/markets/reference-rates/sofr.

Section 3: Improving the resilience of market intermediation

As described in the 2022 Staff Report, while IAWG principles call for the Treasury markets to "have the capacity to support robust primary issuance and secondary trading across a wide range of economic and financial circumstances," demand for intermediation in the Treasury markets surged beyond the capacity for intermediation in several episodes in past years. The IAWG member institutions and their staffs continue to work to enhance the resilience of intermediation. Over the past year, steps taken to this end include changes to the exemption from joining a national securities association, a study of liquidity in the off-the-run market, and the consideration of comments in response to last year's proposed rule regarding requirements for dealer registration. As discussed in subsequent sections, other workstreams also have the potential to contribute to resilient market intermediation.

A. FINRA membership exemption

In August 2023, the SEC adopted amendments to an exemption from the requirement for certain broker-dealers to join a national securities association. The amendments will, among other effects, enhance the oversight of participants in Treasury markets and the transparency of the market by requiring certain broker-dealers significantly involved in the proprietary trading of Treasury securities to become FINRA members and report their Treasury transactions to TRACE.

The amendments affect an exemption from Section 15(b)(8) of the Securities Exchange Act of 1934. Section 15(b)(8) requires any broker-dealer registered with the SEC to join a national securities association if the broker-dealer effects securities transactions elsewhere than a national securities exchange where it is a member. The exemption is set forth in Exchange Act Rule 15b9-1. FINRA currently is the only association.

Under Rule 15b9-1 before the amendments, an SEC-registered dealer could remain exempt from FINRA membership while engaging in unlimited proprietary trading of securities on any exchange of which it was not a member or in the off-exchange market, so long as it was a member of an exchange, carried no customer accounts, and conducted its proprietary trading with or through another registered broker-dealer.

Some broker-dealers that were not FINRA members have been significantly involved in the proprietary trading of Treasury securities. Before the amendments, these firms could engage in this trading outside FINRA's direct jurisdiction even though FINRA is the self-regulatory organization (SRO) responsible for the off-exchange market. In addition, FINRA maintains the TRACE reporting system for fixed-income securities, but only FINRA members and certain depository institutions are required to report their transactions to TRACE. As a result, before the amendments, broker-dealer firms that were not FINRA members were not required to report their Treasury securities transactions to TRACE.

To address these issues, among others, the amendments to Rule 15b9-1 rescinded the prior exemption, such that proprietary trading firms that are SEC-registered broker-dealers now generally must join FINRA, pursuant to Section 15(b)(8) of the Exchange Act, if they effect securities transactions other than on an exchange of which they are a member. This requirement

will subject such firms to FINRA's direct, membership-based jurisdiction and rules, including FINRA's TRACE reporting regime for Treasury securities transactions.

The amended rule sets forth two new, narrower exemptions from Section 15(b)(8)'s FINRA membership requirement. These exemptions apply to an SEC-registered broker-dealer that does not carry customer accounts and is a member of at least one exchange. One of the exemptions applies when such a broker-dealer effects securities transactions elsewhere than an exchange where it is a member that result solely from orders that are routed by an exchange of which the broker-dealer is a member to comply with Rule 611 of Regulation NMS or the Options Order Protection and Locked/Crossed Market Plan. The other exemption applies when such a broker-dealer effects securities transactions elsewhere than an exchange where it is a member that are solely for the purpose of executing the stock leg of a stock-option order.

B. Market structure

IAWG staff continue to study how Treasury market structure affects the resilience of market intermediation. Building on the study in 2022 of all-to-all trading, IAWG staff turned in 2023 to a deeper examination of the off-the-run market. In the all-to-all work, staff had found that most trading protocols in the cash Treasury market that offer access to a broader range of trading partners are limited to trading of on-the-run or near on-the-run notes and bonds, while strains in intermediation in recent years have been concentrated in less-liquid parts of the market, such as off-the-runs. This finding prompted staff to turn their attention to the off-the-run market.

Staff are conducting empirical research to describe off-the-run trading as it occurs today, looking at both trading dynamics in the off-the-run market and the resulting liquidity. This analysis leverages official-sector Treasury TRACE data. Additionally, IAWG staff are conducting structured outreach to market participants, including dealers, hedge funds, principal trading firms, foreign investors, and asset managers, to learn more about their experiences transacting in the off-the-run market. A critical objective of this analysis and outreach is to identify and evaluate potential changes to market structure that could improve the resilience of intermediation in off-the-run trading.

IAWG staff will continue the examination of the off-the-run market and look forward to ongoing engagement with the official sector and the public on this analysis.

C. SEC dealer registration requirement

In 2022, the SEC proposed new rules that would require market participants, such as proprietary or principal trading firms, that assume certain dealer-like roles to register with the SEC, become a member of an SRO, and comply with federal securities laws and regulatory obligations applicable to dealers.[15] In proposing the new rules, the SEC indicated that the registration of these market participants "would provide regulators with a more comprehensive view of the markets through regulatory oversight and would enhance market stability and

[15] See Securities and Exchange Commission, 2022, "Further Definition of 'As a Part of a Regular Business' in the Definition of Dealer and Government Securities Dealer" Federal Register 87, No. 74 (April 18): 23054-23106.

investor protection."[16] The SEC staff is currently considering comments received in response to the proposal in making recommendations for the Commission's consideration.

The proposed new rules would further define the phrase "as a part of a regular business" in Sections 3(a)(5) and 3(a)(44) of the Securities Exchange Act of 1934 (the Exchange Act) to identify certain activities that would cause persons engaging in such activities to be "dealers" or "government securities dealers" and subject to the registration requirements of Sections 15 or 15C of the Exchange Act, respectively.

The proposed rules for dealers and government securities dealers would set forth identical qualitative standards designed to identify activities of market participants that assume certain dealer-like roles and, in particular, those that act as liquidity providers in the markets. In addition, the proposed rule for government securities dealers would set forth a quantitative standard under which a person engaging in certain specified levels of activity would be deemed to be buying and selling government securities "as a part of a regular business," and thus a government securities dealer, regardless of whether that person met any of the proposed rule's qualitative standards.[17] Both proposed rules would exclude any person that has or controls total assets of less than $50 million and any investment company registered under the Investment Company Act of 1940.

[16] See id., p. 23054.
[17] Under the proposal, no presumption would arise that a person is not a dealer solely because that person does not satisfy the standards identified in the proposed rules. The proposed rules do not seek to address all circumstances under which a person may be acting as a dealer or government securities dealer or to replace otherwise applicable interpretations and precedent.

Section 4: Improving data quality and availability

To support the IAWG staffs' principle of "transparency that fosters public confidence, fair trading, and a liquid market," the official sector is working to improve the quality and coverage of data on Treasury market transactions and positions. These actions encompass providing additional public transparency as well as collecting additional data to help the official sector assess market conditions and respond to stresses. As described below, the IAWG member institutions continue to build on past efforts to collect better information on repo market transactions and private fund activities and to disclose more timely and granular information to the public on cash market transactions.

A. Securities lending data collection final rule

On October 13, 2023, the SEC adopted Rule 10c-1a, to provide market participants with access to pricing and other material information regarding securities lending transactions in a timely manner.[18] Rule 10c-1a will require any "covered person" who agrees to a "covered securities loan" to provide specified information to a registered national securities association (RNSA).

FINRA is currently the only RNSA. A covered person refers to (1) any person that agrees to a covered securities loan on behalf of the lender (intermediary) other than a clearing agency when providing only the functions of a central counterparty or a central securities depository, (2) any person that agrees to a covered securities loan as a lender when an intermediary is not used, or (3) a broker or dealer when borrowing fully paid or excess margin securities. A covered securities loan refers to a transaction in which one person—either on that person's own behalf or on behalf of one or more other persons—lends a "reportable security" to another person, with exclusions for (1) positions at a registered clearing agency that result from central counterparty services or central depository services, and (2) the use of margin securities by a broker or dealer unless such broker or dealer lends such securities to another person. A reportable security is a security for which information is already reported or required to be reported to existing reporting regimes.

The rule is intended to increase the transparency and efficiency of the securities lending market. Rule 10c-1a will require certain confidential information to be reported to an RNSA to enhance the RNSA's oversight and enforcement functions. Further, the new rule requires that an RNSA make available to the public certain information that it receives, along with daily information pertaining to the aggregate transaction activity and distribution of loan rates for each reportable security.

The final rule does not require the reporting of repos but does include loans of U.S. government securities between market participants "to help ensure that comprehensive and timely information about these loans is made publicly available so that market participants in the government securities lending market benefit from increased transparency."[19]

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[18] See Securities and Exchange Commission, 2023, "Reporting of Securities Loans," adopting release. Available at https://www.sec.gov/files/rules/final/2023/34-98737.pdf.
[19] See id., p. 63.

B. Bilateral repo data collection proposal

The Treasury Department's Office of Financial Research (OFR) published a notice of proposed rulemaking on January 9, 2023, seeking public comment on establishment of an ongoing data collection covering noncentrally cleared bilateral repo (NCCBR) transactions in the U.S. repo market. The proposed collection would require reporting on NCCBR transactions, which comprise the majority of repo activity by several key categories of institutions such as primary dealers and hedge funds.[20]

U.S. financial companies would be covered under the proposed rule if their average daily total outstanding commitments to borrow cash and extend guarantees through NCCBR contracts over all business days during the prior calendar quarter is at least $10 billion.[21] This materiality threshold includes both overnight and intraday commitments. The proposed rule also sought public comment on the 32 data elements that covered reporters would be required to submit.[22]

The OFR received public comments on its proposed rule in March 2023, with many acknowledging the importance of bringing transparency to this segment of the multitrillion-dollar market for repo transactions.[23] The OFR is working to address the public comments and expects to publish a final rule in early 2024.

The proposed rule builds on an outreach and data collection pilot on NCCBR trades that began in mid-2022. The pilot was intended to provide insights into the behavior of leveraged participants in Treasury markets and lay the groundwork for a proposed ongoing data collection. The 2022 Staff Progress Report described early results from the outreach portion of the pilot and confirmed that the OFR would move forward with a proposed rule.

The OFR completed the pilot collection in December 2022 and published its findings in a May 12, 2023, paper.[24] The analysis combined the OFR's NCCBR pilot data, the OFR's centrally cleared repo data, and the Federal Reserve's tri-party repo data, which together provided the most comprehensive and granular view of the repo market to date.

Overall, the pilot study found that NCCBR may offer more flexibility in terms of tenor and haircuts than is available in centrally cleared repo. NCCBR is particularly commonly used for netted trades with customers. Both the pilot data and outreach suggested that NCCBR offers benefits for the flexibility of terms and margining. In the pilot data, more than 70% of NCCBR Treasury trades were transacted with zero haircut. Section 7 below describes a Financial Stability

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[20] See Office of Financial Research, 2023, "Collection of Non-Centrally Cleared Bilateral Transactions in the U.S. Repurchase Agreement Market." Federal Register 88, No. 5 (Monday, January 9): 1155.
[21] See id., p. 1162.
[22] See id., p. 1170.
[23] See Regulations.gov rulemaking docket, 2023, "Collection of Non-Centrally Cleared Bilateral Transactions in the U.S. Repurchase Agreement Market." Available at https://www.regulations.gov/docket/TREAS-DO-2023-0001/comments.
[24] The pilot collection captured transaction data on June 15, June 22, and June 30, 2022. These dates were chosen to gather information about repo activity on a typical day (June 22) as well as a quarter end (June 30) and a Treasury settlement day (June 15), thereby giving a view of activity in the NCCBR segment across a variety of market environments. Nine dealers volunteered to participate in the pilot. For more information, see Samuel J. Hempel, R. Jay Kahn, Robert Mann, and Mark E. Paddrik, 2023, "Why Is So Much Repo Not Centrally Cleared?" OFR Brief 23-01, May 12. Available at https://www.financialresearch.gov/briefs/files/OFRBrief_23-01_Why-Is-So-Much-Repo-Not-Centrally-Cleared.pdf.

Oversight Council (FSOC) working group's analysis of potential vulnerabilities posed by these haircutting practices and a Treasury Markets Practices Group (TMPG) working group studying risk management practices related to NCCBR transactions.

C. FINRA TRACE data enhancements

On February 13, 2023, FINRA replaced its weekly reports on aggregate Treasury securities data with daily and monthly reports. The reports also now provide additional information on trade counts as well as volume-weighted average prices for on-the-run nominal coupon securities. Market participants have provided broadly positive feedback regarding the additional insight into Treasury transaction volume and pricing.

FINRA is improving the timeliness and quality of the Treasury transaction data that it collects. As a result of rule amendments adopted in December 2022, FINRA on May 15, 2023, began requiring members to report transactions as soon as practical but no later than 60 minutes from the time of execution. In addition, effective November 6, 2023, FINRA members are required to report the time that transactions were executed to the finest increment captured by their execution systems. These changes enable the official sector to receive TRACE data in a timelier manner and facilitate more accurate trade matching when members report different sides of the same trade.

At the 2022 Treasury Market Conference, Under Secretary for Domestic Finance Nellie Liang announced a proposed policy to release secondary market transaction data for on-the-run nominal Treasury coupon securities. Since then, Treasury has been working closely with FINRA to implement this policy.

D. Changes to Form PF and Form M-NFP

This year, the SEC adopted changes to Form PF, and last year the SEC and CFTC jointly proposed additional changes to Form PF, both of which are designed to improve the FSOC's ability to monitor systemic risk as well as bolster the SEC's oversight of private fund advisers and its investor-protection efforts.

In May 2023, the SEC adopted amendments to Form PF to require, among other things, that large hedge fund advisers file a current report within 72 hours of the occurrence of specified events with respect to their qualifying hedge funds.[25] Such events include significant increases in margin, inability to meet a margin call, margin default, and counterparty defaults.

In July 2023, the SEC adopted amendments to Form N-MFP that require MMFs to report, among other matters, additional information about the composition and concentration of their shareholders, about repos and MMFs that invest substantially in repos, and about prime MMFs' sales of non-maturing investments. At this time, the SEC also adopted amendments to Form PF to require that large liquidity fund advisers report similar additional information with respect to

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[25] See Securities and Exchange Commission, 2023, "Form PF; Event Reporting for Large Hedge Fund Advisers and Private Equity Fund Advisers; Requirements for Large Private Equity Fund Adviser Reporting," Federal Register 88, No. 112 (June 12), 38146-38278.

liquidity funds they manage.[26] The amendments will align the reporting obligations of liquidity funds with new reporting requirements for MMFs.

In August 2022, the SEC and CFTC jointly proposed additional amendments to Form PF to, among other things, enhance reporting by large hedge funds.[27] These amendments would include improvements in the reporting of investment exposures and enhanced differentiation between positions in the cash and derivatives markets for Treasury securities.

[26] See Securities and Exchange Commission, 2023, "Money Market Fund Reforms; Form PF Reporting Requirements for Large Liquidity Fund Advisers; Technical Amendments to Form N-CSR and Form N-1A," Federal Register 88, No. 148 (August 3), 51404-51549.
[27] See Commodity Futures Trading Commission and Securities and Exchange Commission, 2022, "Form PF; Reporting Requirements for All Filers and Large Hedge Fund Advisers," Federal Register 87, No. 169 (September 1), 53832-53985.

Section 5: Evaluating expanded central clearing

The IAWG staffs' principles emphasize the value of "well-designed and well-managed infrastructure" for achieving the authorities' goals for the Treasury market. The institutions and processes for clearing and settling Treasury transactions are a critical part of that infrastructure, and some observers have argued that expanding the scope of central clearing for Treasuries could increase the resilience of Treasury markets.[28] The SEC has proposed amendments that would expand the scope of central clearing of Treasury securities transactions. Additionally, the CFTC and SEC in 2023 approved a new framework for cross-margining between centrally cleared positions in cash and futures markets in Treasuries, which is anticipated to improve efficiency and default management.

A. SEC clearing proposal

As discussed in the previous Staff Progress Report, in September 2022, the SEC proposed to amend the standards applicable to covered clearing agencies (CCAs) providing central counterparty services for Treasury securities to require that such CCAs have written policies and procedures reasonably designed to require that every direct participant of a CCA submit for clearance and settlement all eligible secondary market transactions in Treasury securities to which it is a counterparty.[29] The comment period ended December 27, 2022. The SEC continues to review and analyze the comments received on this proposal.

The SEC proposed to define eligible secondary market transactions to include, generally, repo and reverse repo transactions and certain types of cash purchase or sale transactions, that is, those where a CCA's direct participant is providing interdealer broker services or where the direct participant's counterparty is a registered broker-dealer, government securities broker, or government securities dealer; a hedge fund; or a leveraged account satisfying certain criteria.

The SEC stated its belief that these proposed amendments would help reduce contagion risk to a CCA and bring the benefits of central clearing to more transactions involving Treasury securities, thereby lowering overall systemic risk in the market. The SEC also stated its belief that increasing the volume of transactions submitted for central clearing is consistent with promoting the prompt and accurate clearance and settlement of securities transactions.

The SEC also proposed to require that a Treasury securities CCA have policies and procedures reasonably designed to ensure that the CCA has appropriate means to facilitate access to clearance and settlement services of all eligible secondary market transactions in Treasury securities, including those of indirect participants. The SEC stated its belief that such

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[28] See, for example, Darrell Duffie, 2023, "Resilience redux in the U.S. Treasury market," paper presented at the Jackson Hole Economic Symposium, available at https://www.kansascityfed.org/Jackson%20Hole/documents/9726/JH_Paper_Duffie.pdf; Michael Fleming and Frank Keane, 2021, "The Netting Efficiencies of Marketwide Central Clearing," Federal Reserve Bank of New York Staff Report No. 964, available at https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr964.pdf; and Matthew McCormick and Sam Schulhofer-Wohl, 2022, "Expanded central clearing would increase Treasury market resilience," Dallas Fed Economics, available at https://www.dallasfed.org/research/economics/2022/1223.

[29] See Securities and Exchange Commission, 2022, "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," proposed rule, available at https://www.sec.gov/rules/proposed/2022/34-95763.pdf.

requirements also will improve the risk-management practices at Treasury securities CCAs and incentivize and facilitate additional central clearing in the Treasury market, thereby lowering systemic risk.

In addition, the SEC proposed to amend the broker-dealer customer protection rule to permit margin required and on deposit with Treasury securities CCAs to be included as a debit in the reserve formulas for accounts of customers and proprietary accounts of broker-dealers, subject to certain conditions. Currently, broker-dealers are not permitted to include a debit in the customer reserve formula equal to this amount of margin or, more generally, to use customer cash or customer fully paid or excess margin securities to meet a CCA's margin requirement. The SEC stated its belief that this aspect of the proposal would help to address the potential substantial increase in the margin that broker-dealers would be required to post to a Treasury securities CCA resulting from their customers' cleared Treasury securities positions.

B. Enhancements to cross-margining

Centrally cleared Treasury cash and repo transactions are cleared by the Fixed Income Clearing Corporation (FICC).[30] Treasury and interest rate futures are cleared by the Chicago Mercantile Exchange (CME). Since 2004, FICC and CME have maintained a cross-margining agreement that allows each clearinghouse to reduce initial margin requirements for clearing members' positions based on correlated or offsetting positions held at the other clearinghouse. Cross-margined positions and the associated required initial margin are held separately by each clearinghouse.

In September 2023, the CFTC and SEC approved CME and FICC rule changes reflecting enhancements to the cross-margining arrangement that are expected to be implemented by January 2024.[31] The changes to the cross-margining arrangement primarily reflect three components. First, the changes modify the scope of products eligible for cross-margining. Second, the changes replace the methodology for calculating the margin reductions available to cross-margined positions. Finally, the modifications are designed to improve the default management and loss sharing processes that FICC and CME would engage in if a common clearing member or pair of affiliated clearing members were to default. Similar to the prior agreement, the revised agreement allows cross-margining only for positions of clearing members, not for positions of their customers.

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[30] FICC is a subsidiary of The Depository Trust & Clearing Corporation (DTCC).

[31] See Securities and Exchange Commission, Release No. 34-98327, "Self-Regulatory Organizations; The Fixed Income Clearing Corporation; Order Granting Approval of Proposed Rule Change to Amend and Restate the Cross-Margining Agreement between FICC and CME," available at https://www.sec.gov/files/rules/sro/ficc/2023/34-98327.pdf; DTCC and CME, 2023, "CME Group and DTCC Receive Regulatory Approval for Enhanced Treasury Cross-Margining Arrangement Launching January 2024," press release, September 12, available at https://www.dtcc.com/news/2023/september/12/enhanced-treasury-cross-margining-arrangement-launching-january-2024 and https://www.cmegroup.com/media-room/press-releases/2023/9/12/cme_group_and_dtccreceiveregulatoryapprovalforenhancedtreasurycr.html.

Products eligible for cross-margining

CME products eligible for cross-margining under the revised agreement include an expanded list of interest rate futures. The contracts newly eligible for cross-margining include Ultra Ten-Year T-Note Futures and Ultra U.S. Treasury Bond Futures. SOFR futures will also become eligible for cross-margining. Previously, the interest rate futures and options contracts eligible for cross-margining had included only Eurodollar contracts and certain Treasury contracts.

Eligible products at FICC will comprise Treasury notes and bonds. The prior agreement also allowed for cross-margining of Treasury bills and TIPS, but cross-margining of these products was rarely used and will not be carried into the new agreement. The combined changes in the products eligible for cross-margining will expand the potential margin reductions that clearing members could receive.

Methodology for margining cross-margin portfolios

The new methodology aims to improve efficiency and reduce risk by enhancing the modeling and margining of correlations.

Under the revised agreement, the following procedure will be used to margin portfolios. Eligible positions will be held in a separate account from the rest of the clearing member's positions at each clearinghouse, and internal margin offsets will not be applied. Each clearinghouse will use its own margin methodology to calculate the percentage by which the initial margin requirement for the combined portfolio of eligible products of a common member (i.e., both the products cleared at FICC and the related products cleared at CME) is reduced, as compared with the aggregate requirement for the positions if cleared separately. Both clearinghouses will reduce the clearing member's initial margin requirement by the smaller of the two percentage reductions calculated in this manner, to help ensure a conservative joint margin level. Further, FICC and CME will apply such a margin reduction only if it exceeds an agreed minimum threshold. This feature is designed to prevent any negatively correlated portfolios or portfolios with little to no correlation from receiving cross-margin benefit given the operational coordination required to provide such benefit.

Under the prior agreement, FICC and CME separately considered offsets for their respective products.

Default management and loss sharing

The revised agreement would provide three potential default management paths and would favor joint action by FICC and CME as a first, best option. In contrast, the prior the agreement merely sought to align the time at which the CCPs would liquidate a common member's positions. The new agreement will thus simplify default management and strengthen coordination between the CCPs in the event of a common member default.

The revised agreement would simplify the scenario in which only one of the CCPs suspends a common member by requiring the common member to repay the margin reduction

realized under the cross-margin arrangement.[32] If the common member failed to pay back the margin reduction, then both CCPs would suspend and liquidate the member's portfolio.[33]

In the event that both FICC and CME suspend a common member, the revised agreement is designed to facilitate joint liquidation of the common member's cross-margin portfolio. The prior agreement required only that FICC and CME make reasonable efforts to coordinate when off-setting positions were closed out and to report losses to each other. In contrast, the revised agreement requires in the first instance a good-faith attempt to jointly transfer, liquidate, or close out positions. The revised agreement further describes alternatives where joint liquidation is either infeasible or inadvisable, including separate liquidation similar to what was contemplated under the prior version of the agreement.[34]

The revised agreement also simplifies loss sharing in the event of a common member default and would introduce a new feature to align cash flows during default management. In the event the CCPs jointly transfer, liquidate, or close out a common member's cross-margined positions, if one CCP faces a loss greater than (or gain less than) its share of total losses (or gains), the other CCP would pay the difference to ensure that each CCP was responsible for its respective portion of losses or gains.

In the case of a joint liquidation, the revised agreement provides for an exchange of variation margin between FICC and CME. Such an exchange would improve the efficiency of the default management process by aligning cash flows in a scenario in which either CME or FICC has a payment obligation arising out of cross-margined positions that could be covered by the variation margin gains on offsetting cross-margined positions held by the other CCP. The prior agreement did not contemplate any exchange of variation margin between FICC and CME.

The revised agreement also simplifies the sharing of losses where FICC and CME liquidate the defaulter's cross-margin positions separately. In the case of separate liquidations, if either FICC or CME had a net gain and the other had a net loss, the CCP with the net gain would make a payment to the CCP with the net loss. This payment would be the lesser of the net gain or net loss realized by the CCPs.[35]

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[32] Such a payment would provide each CCP with the collateral it would have collected if the common member did not participate in the cross-margining arrangement.

[33] In contrast, the prior agreement set out a complex series of conditional statements and calculations that flow into further loss sharing provisions in the event that only one CCP suspends a common member.

[34] The revised agreement would allow either FICC or CME to buy out the other's cross-margined positions with the defaulter. Failing joint action or buy-out, the revised agreement allows for separate liquidation followed by loss sharing, similar to the provisions of the prior agreement.

[35] In the event that either FICC or CME bought out the other's cross-margin positions and related collateral, no loss sharing would occur.

Section 6: Enhancing trading venue transparency and oversight

Trading venues are platforms that enable transactions to take place, making them an important form of market infrastructure. As noted in the 2022 Staff Report, the IAWG staffs' principles observe that the effectiveness and efficiency of market infrastructure influence the ability to achieve the rest of the IAWG principles. As a result, effective oversight of trading venues can help ensure not only that the venues facilitate transactions efficiently, but also that they are reliable and resilient and that they foster fair trading and public confidence in the market, among other goals.

On January 26, 2022, the SEC proposed to amend an SEC rule to include within the definition of "exchange" market places that offer the use of non-firm trading interest and communication protocols to bring together buyers and sellers of securities.[36] Such market places include electronic request-for-quote (RFQ) platforms, which are a significant source of liquidity for Treasury securities. As a result of the proposal, trading venues that perform similar market place functions to registered exchanges and ATSs would be required to comply with the same federal securities laws and regulations applicable to registered exchanges or ATSs. As a result, investors who use these systems would receive the same investor protection and the benefits of fair and orderly market principles that apply to today's registered exchanges and ATSs.

In addition, to promote operational transparency, investor protection, system integrity, fair and orderly markets, and regulatory oversight, the SEC re-proposed amendments to Regulation ATS and Regulation SCI that the SEC proposed in 2020 to apply these regulations to ATSs that trade U.S. government securities and repos and reverse repos on government securities ("Government Securities ATSs"). These proposed amendments would, among other things:

- eliminate the exemption from compliance with Regulation ATS for, and apply the provisions of Regulation ATS to, an ATS that limits its securities activities to government securities or repos and reverse repos on government securities and registers as a broker-dealer or is a bank;
- require Government Securities ATSs to file public revised Form ATS-N, which would be subject to the SEC's review and effectiveness process; and
- apply the fair access rule under Regulation ATS and Regulation SCI to Government Securities ATSs that meet certain volume thresholds in Treasury securities or agency securities.

The 2022 proposal builds upon public comments received in response to the 2020 proposal and the concept release on fixed-income markets that the SEC issued as part of the 2020 proposal.[37]

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[36] See Securities and Exchange Commission, 2022, "Amendments Regarding the Definition of 'Exchange' and Alternative Trading Systems (ATSs) That Trade U.S. Treasury and Agency Securities, National Market System (NMS) Stocks, and Other Securities," Federal Register 87, No. 53 (March 18): 15496-15696; and Securities and Exchange Commission, 2022, Federal Register 87, No. 92 (May 12, 2022): 29059-29061.

[37] See Securities and Exchange Commission, 2020, "Regulation ATS for ATSs That Trade U.S. Government Securities, NMS Stock, and Other Securities; Regulation SCI for ATSs That Trade U.S. Treasury Securities and Agency Securities; and Electronic Corporate Bond and Municipal Securities Markets," Federal Register 85, No. 251 (December 31): 87106-87253.

In April 2023, the SEC reopened the comment period on the 2022 proposal to amend the definition of "exchange."[38] The SEC also provided information about the application of the proposed amendments to trading systems for crypto asset securities and trading systems using distributed ledger or blockchain technology, including so-called "DeFi." In addition, the SEC solicited comment on alternative rule text to the proposed amendments to the SEC rule for the definition of exchange that was issued in January 2022. For example, the SEC solicited comment on potentially changing the term "communication protocols" to "negotiation protocols" and providing a definition of "negotiation protocols" in the rule.

The SEC continues to review and analyze the comments received on this proposal.

[38] See Securities and Exchange Commission, 2023, "Supplemental Information and Reopening of Comment Period for Amendments Regarding the Definition of 'Exchange,'" Federal Register 88, No. 87 (May 5, 2023): 29448-29493. See also Securities and Exchange Commission, 2022, "Amendments Regarding the Definition of 'Exchange' and Alternative Trading Systems (ATSs) That Trade U.S. Treasury and Agency Securities, National Market System (NMS) Stocks, and Other Securities," Federal Register 87, No. 53 (March 18): 15496-15696; and Securities and Exchange Commission, 2022, Federal Register 87, No. 92 (May 12, 2022): 29059-29061.

Section 7: Examining effects of leverage and fund liquidity risk management practices

As illustrated by the March 2020 stress event and discussed in the 2021 Staff Report, liquidity risk within certain types of investor positions and funds can amplify stresses in the Treasury market. Over the past year, the SEC has adopted amendments to reduce the risk of runs on MMFs during periods of market stress and proposed amendments to enhance the resilience of open-end funds. The FSOC Hedge Fund Working Group and the TMPG continue to examine further potential sources of risk relating to Treasury markets.

A. Mutual fund reforms

In July 2023, the SEC adopted amendments under the Investment Company Act of 1940 intended to address problems experienced by certain MMFs in connection with the economic shock at the onset of the COVID-19 pandemic in March 2020.[39] Specifically, the amendments are designed to reduce the risk of investor runs on MMFs during periods of market stress by removing MMFs' ability to temporarily suspend redemptions and removing the tie between liquidity fees and weekly liquid asset thresholds. Also, the amendments will provide a more substantial liquidity buffer in the event of rapid redemptions by increasing the minimum liquidity requirements for MMFs. To address concerns about redemption costs and liquidity, the amendments will require institutional prime and institutional tax-exempt MMFs to impose liquidity fees when daily net redemptions exceed 5% of net assets and require any non-government MMF to impose discretionary liquidity fees if its board determines that a fee is in the best interest of the fund.

To enhance open-end fund resilience in periods of market stress, the SEC voted in November 2022 to propose amendments to better prepare open-end funds for stressed conditions and to mitigate the dilution of shareholders' interests.[40] The rule and form amendments would enhance how funds manage their liquidity risks, require mutual funds to implement liquidity management tools, and provide more timely and detailed reporting of fund information.

B. FSOC Hedge Fund Working Group

This year, FSOC's interagency Hedge Fund Working Group (HFWG) has been using its risk monitoring framework developed in 2022 to track threats, facilitate communication among the relevant agencies during market distress, and provide the Council with current information about hedge fund activities and possible financial stability threats. HFWG staff have periodically presented their assessments of hedge-fund-related financial stability risks to the FSOC during the past year.

Additionally, the HFWG has been analyzing the potential vulnerabilities associated with haircutting practices in the NCCBR market. That analysis revealed that the low or zero haircuts common for these transactions may represent a structural vulnerability during periods of market

[39] See Securities and Exchange Commission. Money Market Fund Reforms. Final Rule, 88 Federal Register, No. 148 (August 3, 2023).
[40] See Securities and Exchange Commission. Open-End Fund Liquidity Risk Management Programs and Swing Pricing; Form N-PORT Reporting. Proposed Rule, 87 Federal Register, No. 241 (Dec 16, 2022).

stress. Shocks to Treasury market liquidity or a divergence in the historical relationship between Treasury securities with different maturities can cause the assumptions underlying low or zero haircuts on netted packages and other portfolios to break down. Such developments can also lead to stressed liquidations of highly leveraged positions, as occurred in March 2020.

These efforts build on the HFWG's work since 2021 to analyze hedge fund activities in systemically important markets and these activities' potential threats to financial stability, and to develop a robust risk-monitoring framework to track such potential threats. These efforts have enhanced FSOC's and other agencies' abilities to understand and assess hedge fund-related systemic risks.

HFWG staff have identified three principal channels through which hedge funds can create financial stability risks: (1) by causing or contributing to market disruptions through large asset liquidations; (2) by transmitting risks to counterparties that are large, highly interconnected financial institutions; or (3) by reducing financial intermediation, which could, under certain conditions, potentially impair market functioning. The working group identified these channels based on several case studies, including the March 2020 Treasury market disruptions and Archegos Capital Management's failure.[41]

C. Treasury Market Practices Group

The TMPG is an industry-based group sponsored by the FRBNY that seeks to support the integrity and efficiency of the Treasury, agency debt, and agency mortgage-backed securities markets. At the beginning of 2023, the TMPG established a working group to study risk management practices related to NCCBR transactions,[42] as an extension of the group's 2022 work on clearing and settlement of Treasury secured financing transactions (SFTs).[43] The 2022 whitepaper highlighted that noncentrally cleared bilateral SFTs have bespoke and opaque risk management processes, which likely creates uncertainty about the levels of exposure across market participants and systemic risks. The goal of the new working group is to better understand these risk management practices and consider any potential additions or revisions to TMPG best practice recommendations. The working group has begun initial outreach to a subset of firms that engage in this market to understand the risk management practices that are currently employed.

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[41] Archegos Capital Management was a family office that used strategies that are also in common use by hedge funds.

[42] See Treasury Market Practices Group, "2023 Priorities," available at https://www.newyorkfed.org/medialibrary/Microsites/tmpg/files/TMPG_2023_Objectives.

[43] See Treasury Market Practices Group, 2022, "TMPG Releases Consultative White Paper on Clearing and Settlement in the Market for U.S. Treasury Secured Financing Transactions," November 9, available at https://www.newyorkfed.org/medialibrary/Microsites/tmpg/files/PressRelease_110922.pdf.

Section 8: Conclusion

The staffs of IAWG member institutions continue to collaborate to ensure effective surveillance and enhance the resilience of the Treasury market. Their work over the past year has advanced these goals. The staffs intend for their work to continue to complement that of the FSOC and to align with the broad agenda laid out by the Financial Stability Board regarding core bond markets and nonbank financial intermediation. The staffs welcome continued engagement with academics, market participants, and other interested parties.