Inter-Agency Working Group's efforts on Treasury Market Resilience

Treasury Borrowing Advisory Committee

October 29, 2024

Treasury Market Resilience: Since 2021, the Inter-Agency Working Group on Treasury Market Surveillance (IAWG) has been conducting an extensive program of analysis and policymaking to enhance Treasury market resilience. The IAWG has organized around five workstreams and issued four annual reports highlighting its progress (2024, 2023, 2022, 2021). Please comment on the effectiveness of the IAWG efforts to date. To what extent will the policies that have been or are being implemented improve Treasury market resilience? In which areas are additional policy changes needed? Please elaborate.

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Executive summary

- The IAWG has done extensive work since 2021 to enhance the resilience of the Treasury market. There are many positive indicators to suggest that the IAWG's efforts have had the intended impact, such as:
  - Improvements across Treasury market liquidity metrics
  - Availability of funding liquidity for leveraged investors
  - Smooth market functioning through the SVB stress
  - More available public data to improve transparency and strengthen investor confidence
- Several initiatives that are being worked on or will be fully implemented in coming years should further the progress
- However, it is difficult to isolate the extent to which these developments are due to IAWG efforts or helped by other market forces
  - For example, the substantial Fed balance sheet expansion from Covid remains partially in place today; as the Fed continues to reduce its balance sheet, there is risk that market resiliency could be tested
- At the same time, continued evolution in the Treasury market has created potential new vulnerabilities that may require the IAWG to consider new policies or changes to existing policies

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What is the Inter-Agency Working Group (IAWG)?

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

- Composed of staff from the U.S. Treasury, Federal Reserve Board, FRBNY, SEC, and CFTC
- Formed in 1992 to improve monitoring and surveillance and strengthen interagency coordination with respect to the Treasury market following the Salomon Brothers auction bidding scandal
- Individual agencies have authority to enact policy measures that support the IAWG objectives
- Recently convened the tenth[1] annual U.S. Treasury Market Conference in September

[1] *See: "Enhancing The Resilience Of The U.S. Treasury Market: 2024 Staff Progress Report"*

Workstreams for Treasury market resilience guided by six principles

Guiding Principles

Resilient and elastic **liquidity**

Transparency that fosters public confidence, fair trading, and a liquid market

Prices that reflect prevailing and expected economic and financial conditions

Economic integration across cash, funding, and derivatives markets

Financing that does not pose a significant threat to financial stability

Infrastructure that operates efficiently and effectively

Current Workstreams and Future Developments

Resiliency of intermediation: Regulatory initiatives to strengthen oversight of Treasury market participants and improve market intermediation

Data quality and availability: Enhanced transaction-level data reporting for various market segments, including non-centrally cleared bilateral repo (NCCBR) transactions and hedge funds

Expanded central clearing: Requirements to expand central clearing of certain Treasury market transactions and improve cross-margining arrangements

Venue transparency and oversight: Proposed regulations for alternative trading systems (ATSs) to enhance transparency and oversight

Leverage and liquidity: Ongoing efforts to examine leverage and liquidity risks, including the launch of a hedge fund monitor and establishment of risk management working groups

Future Developments

- NCCBR transaction reporting (December 2024)
- Form PF reporting requirements (March 2025)
- SEC dealer registration (April 2025)
- Regulatory groups to continue work and review existing initiatives

https://home.treasury.gov/system/files/136/IAWG-Treasury-Report.pdf; *See appendix table for workstream details*

Notable efforts on Treasury market resilience since 2021

	2021	2022	2023	2024	2025 - 2026
Resilience of Intermediation	**Established SRF and FIMA repo facility**			**Launched a Treasury buyback program**	Comply with expanded SEC dealer registration requirement (Apr 2025) Working paper on off-the-run Treasuries
Data Quality and Availability		**OFR pilot to collect uncleared repo data** **Expanded TRACE reporting**	**Launch of daily aggregate statistics on Treasury volumes**	**EOD dissemination of OTR nominal coupon transactions** **Daily reporting of uncleared repo transactions**	Comply with expanded Form PF for systemic risk monitoring (Mar 2025)
Expanded Central Clearing			**SEC adoption of central clearing rules**		Full implementation of central clearing for Treasuries (Dec 2025) and repos (Jun 2026)
Venue Transparency and Oversight			**Proposal to amend definition of exchanges and trading systems for crypto assets**		
Leverage and Fund Liquidity Risks		**Developed hedge fund risk monitoring framework**		**Launched Hedge Fund Monitor tool** **Further studies on the NCCBR market**	

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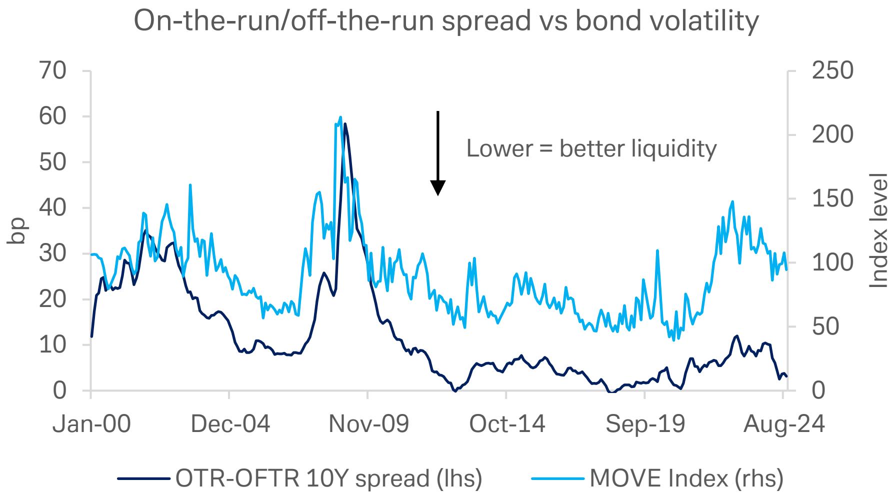
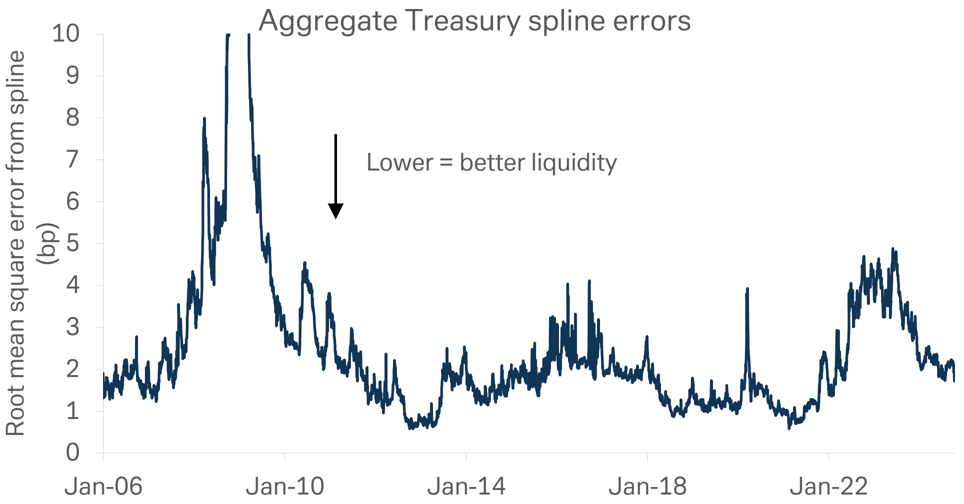
Resilient and elastic liquidity

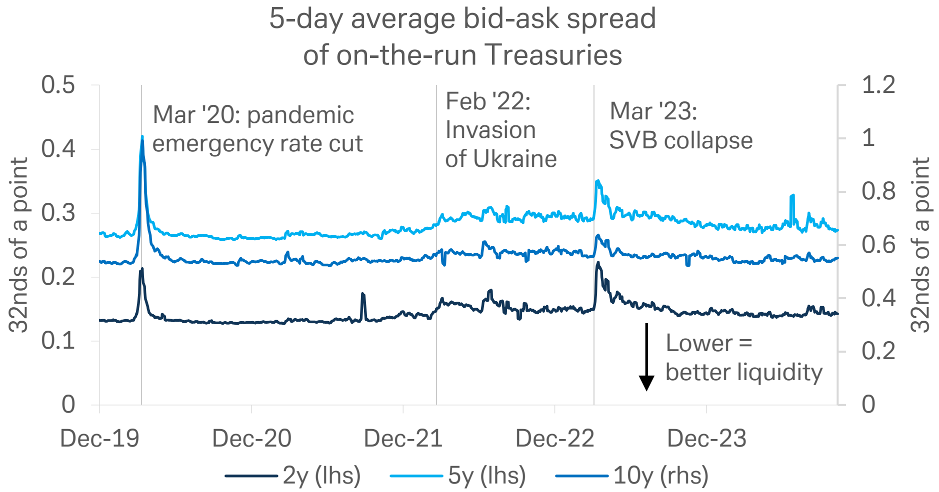
- Treasury market liquidity has been good since the pandemic with no acute stress events
- Most liquidity metrics (such as OTR/OFTR spreads, Treasury spread to fitted yields, order book depth) have either been stable or improved despite volatility remaining somewhat elevated
- TRACE trading volumes have steadily risen, both in absolute terms and as a percentage of outstanding Treasury debt, indicating healthy market activity
- The market has adapted well to significant shifts in actual and expected economic and financial conditions, including historic economic data surprises and banking sector stress during the SVB collapse
- Funding conditions remain healthy, supported by still-abundant reserves provided by the Fed securities holdings; however, the market is focused on impact of the Fed balance sheet unwind, which bears watching
- The recently launched Treasury buyback program is expected to improve liquidity, although more time is needed to fully assess its impact on market conditions
    - Dealers have generally characterized operations so far as “moderately supportive of liquidity and market-making” in specific sectors[1]

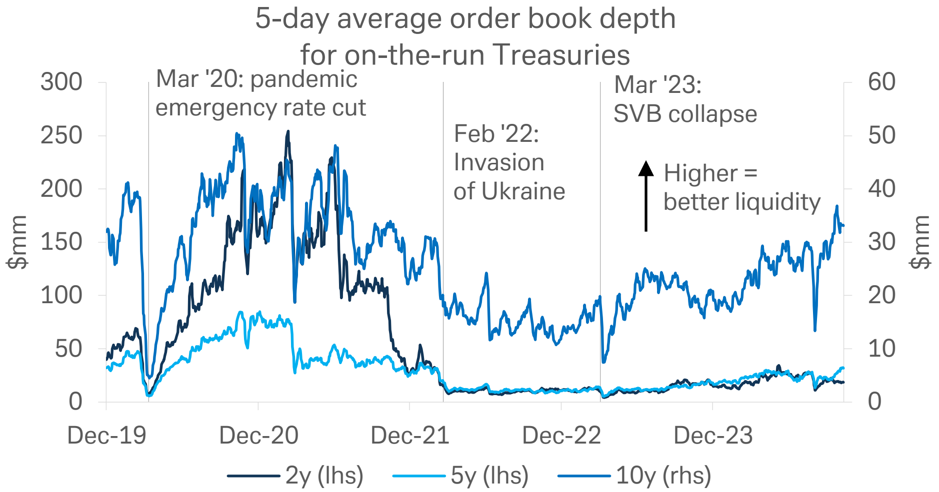
[1] See August 2024 TBAC meeting minutes

Treasury market liquidity appears robust across various metrics









Source: BrokerTec, Bloomberg Finance LP, Deutsche Bank data

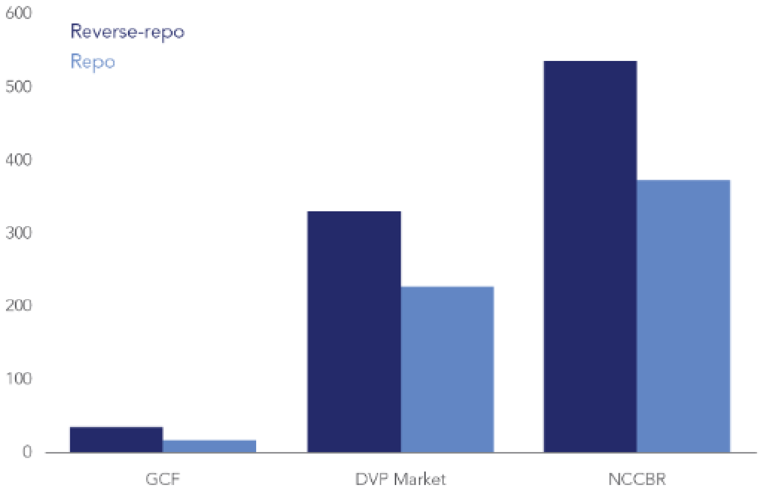
Transparency of the market

- In 2020, FINRA began monthly publication of TRACE aggregate statistics on Treasury market activity
    - In 2023, publication switched to weekly with details added (for example: daily VWAP for on-the-runs)
    - In 2024, publication began of transaction data for on-the-runs at the end of each day, initially with size caps and later uncapped historical transactions with a 6-month delay
- Feedback on the initial proposal from primary dealers was broadly supportive, although views differed on ideal cap sizes[1]
    - Dealers generally agreed that releasing transaction-level data on less liquid securities which take longer to recycle on dealer balance sheets could adversely affect bid-offer spreads and market liquidity; as a result, off-the-run transactions are not released around time of trade
    - Dealers also viewed the publication of uncapped historical transactions with a 6-month delay as having little to no impact[2]
- OFR data collection on uncleared bilateral repo (2022) enabled additional studies of the basis trade and financial leverage
- The Hedge Fund Monitor tool (2024) presents data collected across agencies to track risks associated with liquidity, leverage, and risk management
- FINRA enhanced its market oversight by reducing membership exemptions, bringing more proprietary trading firms under its supervision
- The Fed adopted extensions for dealer reports to list GC and triparty repo transactions separately, allowing for closer monitoring of the two segments

[1] See February 2023 TBAC meeting minutes
[2] See August 2024 TBAC meeting minutes

Increased transparency on non-centrally cleared bilateral repos

Figure 1. Outstanding Volume by Repo Market Segment for Pilot Participants ($ billions)



Note: Volumes are for nine pilot participants on June 15, 2022.

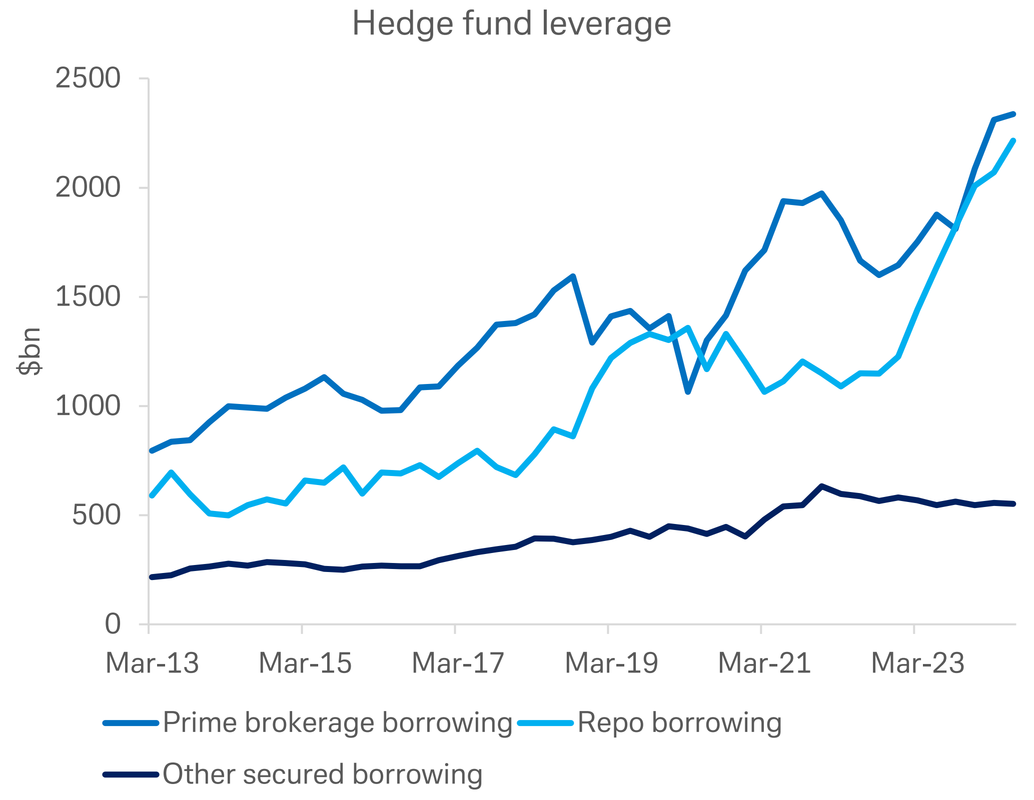
Sources: 2022 OFR NCCBR Pilot, OFR Cleared Repo Collection, Office of Financial Research

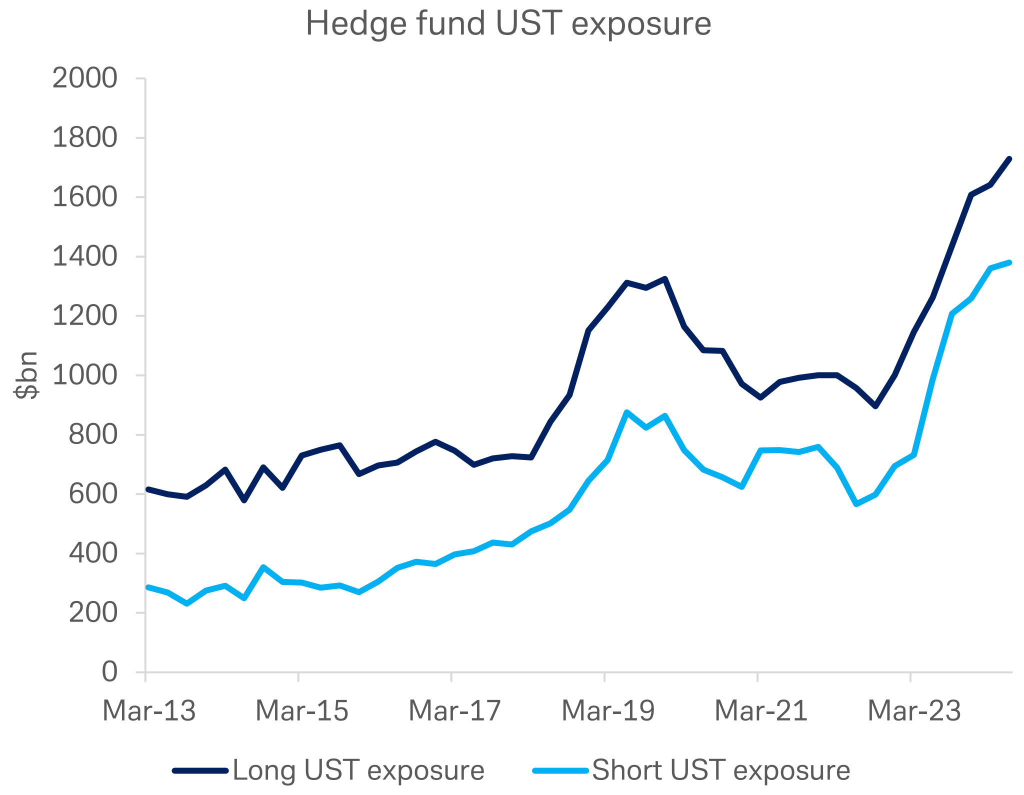
	Submissions testing can begin as early as...	Compliance Date	Daily reporting begins no later than...
Category 1 Covered Reporter	July 5, 2024	December 2, 2024	December 3, 2024 11 a.m. ET
Category 2 Covered Reporter	July 5, 2024	April 1, 2025	April 2, 2025 11 a.m. ET

[OFR's Pilot Provides Unique Window Into the Non-centrally Cleared Bilateral Repo Market | Office of Financial Research]

[Non-centrally Cleared Bilateral Repo Data | Office of Financial Research]

OFR's new monitoring tool provides additional transparency on hedge fund characteristics and potential risk factors

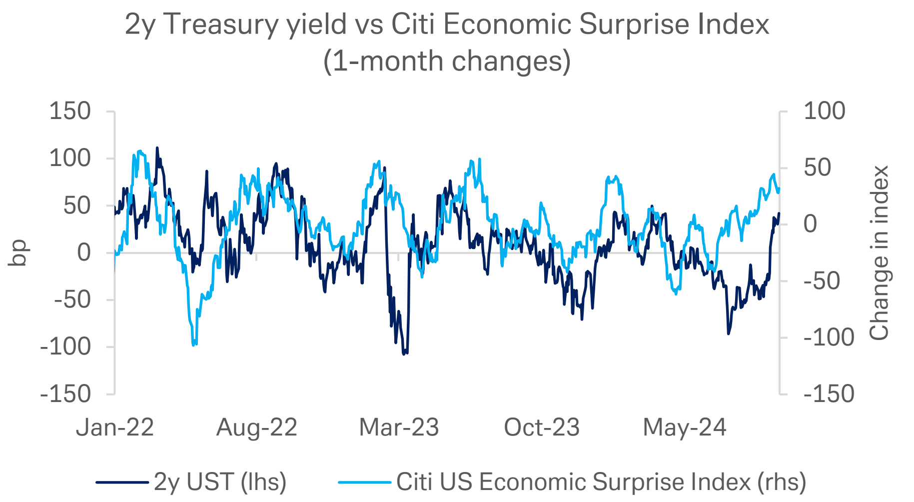


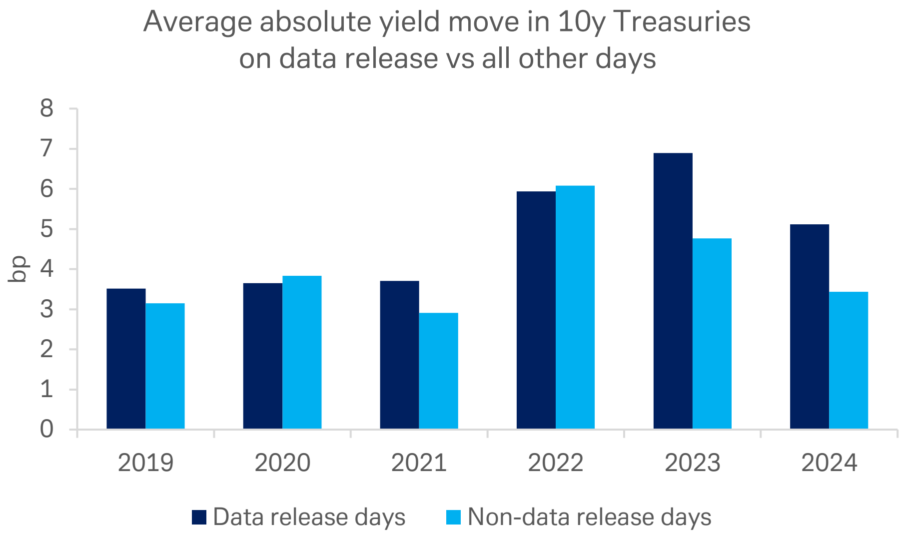


Source: OFR, SEC

Prices reflective of prevailing and expected conditions

- Treasury yields and the yield curve have seemingly reflected shifts in market expectations for the economy and Fed policy as highlighted by the high correlation between yield moves and the Citi Economic Surprise Index
- Treasury prices have responded to significant economic data releases and key market news in a swift and orderly fashion
- Low term premia[1] (potentially as a legacy effect of global QE) could affect Treasury prices and influence how they reflect prevailing and future expected conditions





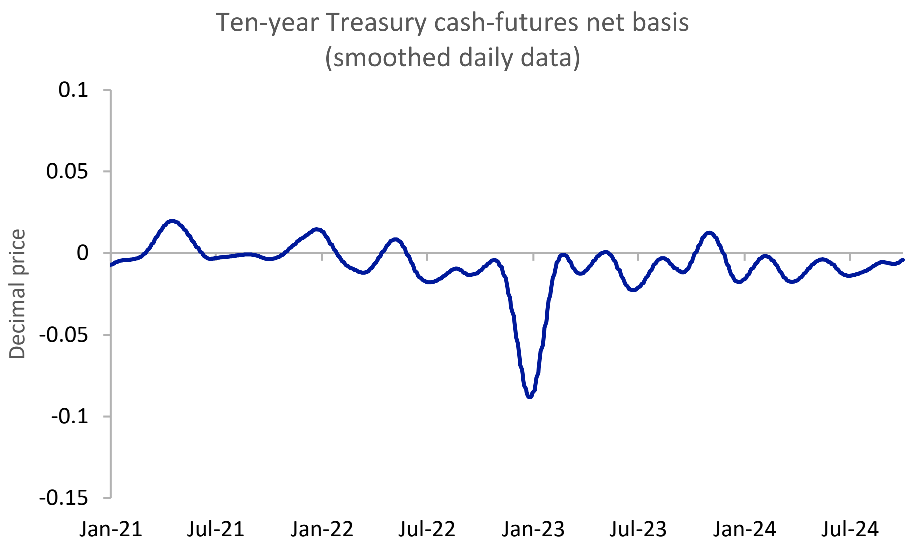
Note: Data releases include ADP employment, nonfarm payrolls, jobless claims, CPI, GDP, ISM manufacturing, PPI, PCE, University of Michigan survey

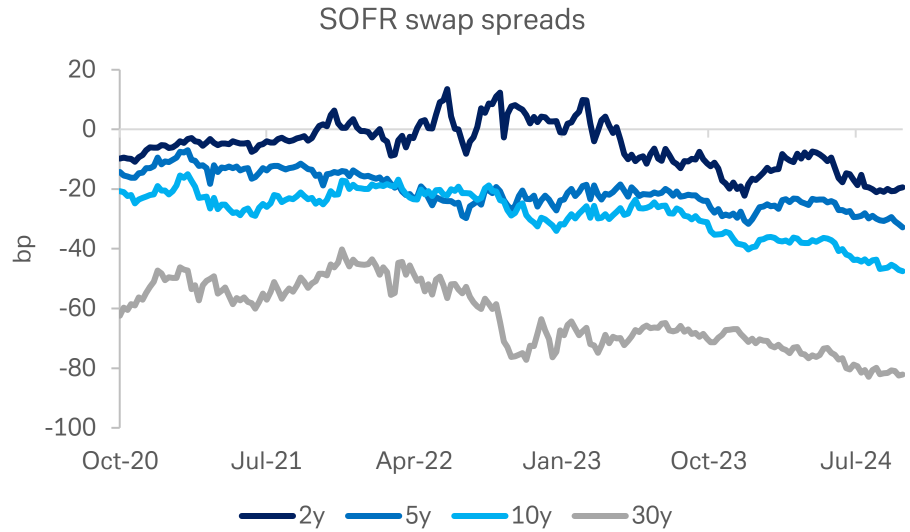
[1] See November 2023 TBAC discussion on term premia

Source: Bloomberg Finance LP, Citigroup

Economic integration across markets

- Basis and swap spread markets provide tight linkages across funding, cash, and derivatives markets. Robust volumes in these markets and large hedge fund positions in Treasuries (driven in part by basis trades) reflect healthy market integration
- However, both the Treasury-futures basis and swap spreads have steadily moved lower in recent years (cash cheapening relative to futures and swaps)
- Structural factors such as shifts in investor preference for cash vs futures[1] and the outlook for fiscal deficits likely explain these moves





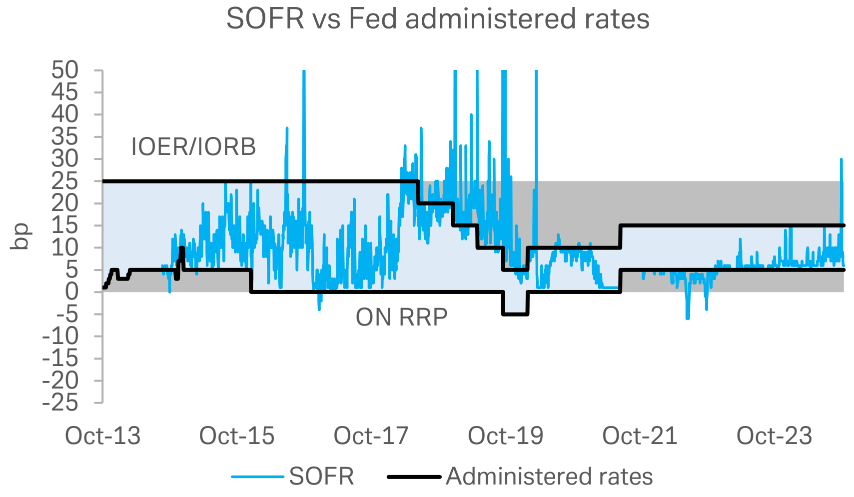
[1] See February 2024 TBAC discussion on asset manager and hedge fund use of Treasury futures

Source: Bloomberg Finance LP, Deutsche Bank data

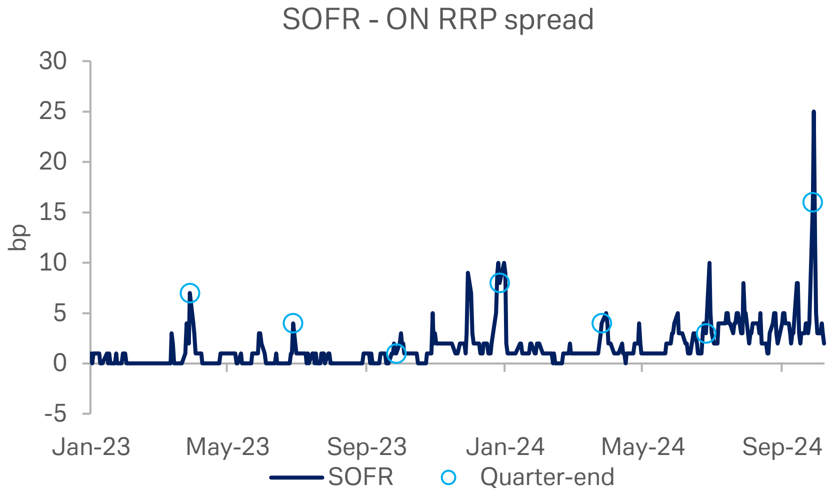
Financing risk and financial stability

- Despite increases in hedge fund presence and the basis trade[1], movements of repo relative to the Fed's administered rates have been relatively benign compared to before Covid
  - It is unclear how much of this should be attributed to IAWG efforts versus the continued abundance of funding liquidity
- Money market reform has reduced the risk of runs during periods of financial stress and keeps funding liquidity in private markets
- The Standing Repo Facility (SRF) and FIMA Repo Facility provide backstops that should reduce risks of precautionary sales of Treasuries
  - However, the facilities are untested in periods of acute stress
  - The SRF also faces limitations given its triparty structure (not centrally cleared). The late-day operation time also presents a challenge to dealers who need to borrow cash in the morning to prevent daylight overdrafts with their settlement bank. As a result, the SRF can dampen repo pressures but does not function as a ceiling on rates

SOFR remains mostly inside the Fed's target range



Increased volatility over quarter-end with SRF not being able to act as a cap



[1] February 2024 TBAC discussion charts

Source: FRBNY

Efficient and effective infrastructure

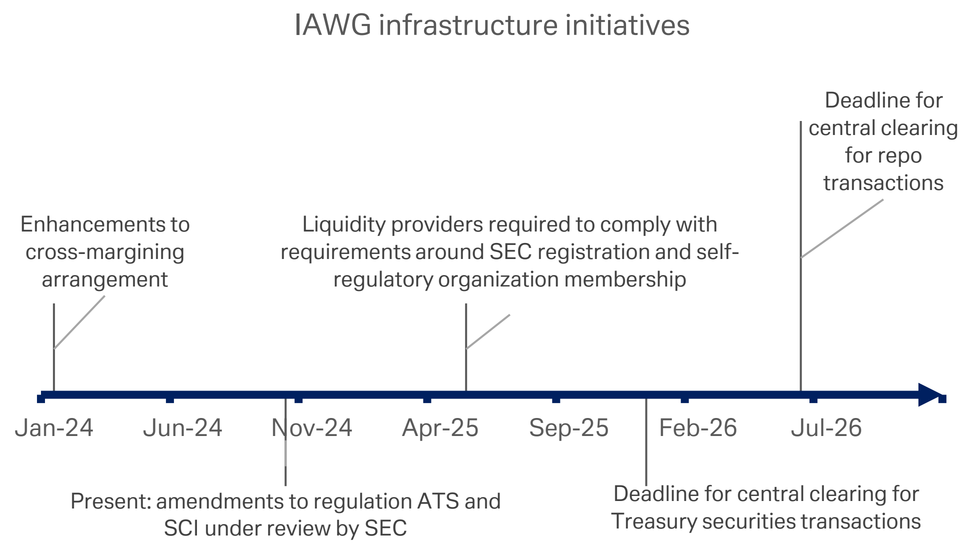
- Key liquidity providers have to register with the SEC and join a self-regulatory organization by April 2025. These requirements help ensure that dealers are acting with the responsibility and integrity required of their roles

- The completion of central clearing for Treasury securities (December 2025) and repo (June 2026) should substantially reduce settlement risks in these markets

- Amendments to Reg ATS (alternative trading system) and Reg SCI (systems compliance and integrity), currently under SEC review, should promote resilience of market systems. Proposed changes for strengthening the governance of platforms include:

  - Expanding Reg ATS by broadening the definition of exchanges to include systems for trading crypto and removing exemptions around certain ATSs specializing in USTs and repo

  - Applying fair access requirements to ATSs exceeding UST/agency security trade volume thresholds



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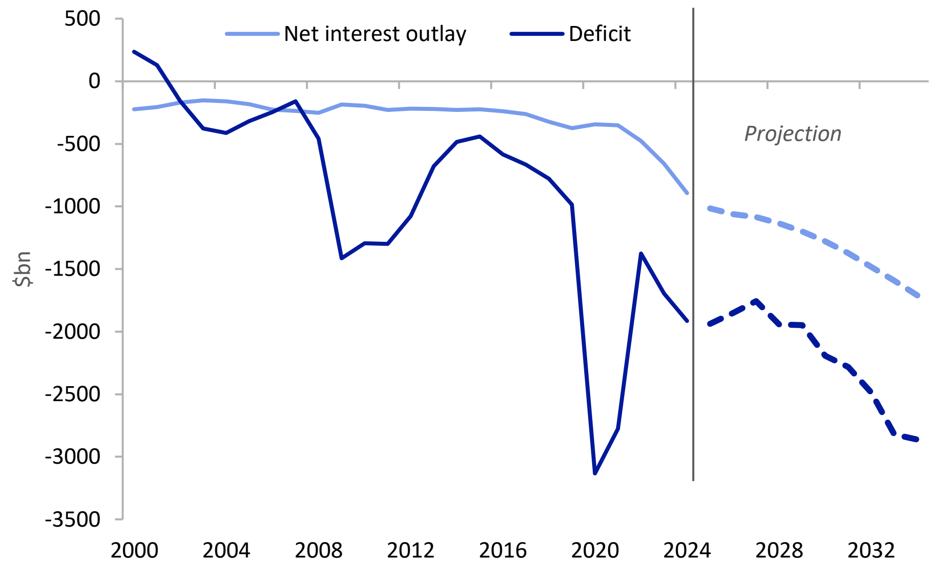
Large structural deficits leading to rapid Treasury market growth

- Treasury debt outstanding has increased by $11tn or 66% since the end of 2019, driven by pandemic-era fiscal stimulus and ongoing high deficits
- The CBO projects annual deficits of $1.8tn-$1.9tn over the next five years, rising to close to $2.9tn by 2034 under current law
- The CRFB estimates[1] that new policies could raise the national debt by $3.5tn to $7.5tn through 2035 over the CBO baseline
- Higher interest rates have increased the average coupon on Treasury securities, with interest outlays projected to exceed $1 trillion per year going forward. The high cost of debt poses substantial challenges to meaningful deficit reduction

CBO projections of the budget deficit and net interest outlay



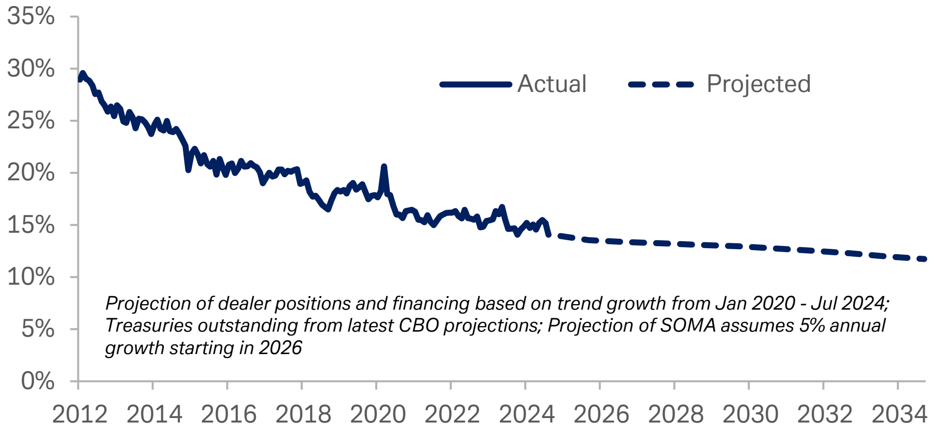
[1] See: Committee for a Responsible Federal Budget, "The Fiscal Impact of the Harris and Trump Campaign Plans"

Source: CBO June 2024 update of baseline projections

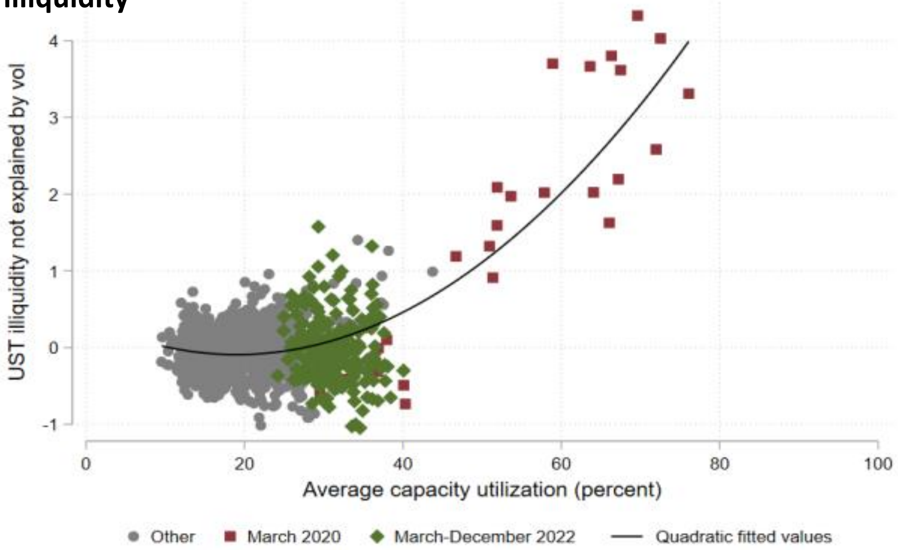
Dealer intermediation capacity has not kept pace with issuance

- In contrast, dealer intermediation capacity has been relatively fixed and limited by regulatory constraints
- Holding UST inventory does not generally produce sufficient returns on capital. There are many nuances to this, such as if the particular institution has balance sheet or RWAs as a constraining factor
- However, dealer balance sheets devoted to USTs have not come close to keeping pace with growth of UST debt outstanding. Assuming capital rules and bank return targets stay roughly unchanged, dealer holdings are not likely to meaningfully increase unless USTs cheapen substantially vs. swaps or futures or bid-offer spreads on off-the-runs widen a lot
- Primary dealers' intermediation capacity, when measured as gross positions and financing in Treasuries as a percentage of total market outstanding, has steadily declined over the last decade and could fall further based on trend growth and CBO's debt projections
- A 2023 FRBNY staff report[1] shows a positive relationship between Treasury illiquidity and high average dealer capacity utilization after controlling for the level of implied volatility

Primary dealer gross positions and financing in Treasuries as % of total outstanding (excl. SOMA)



High dealer capacity utilization correlated with Treasury market illiquidity

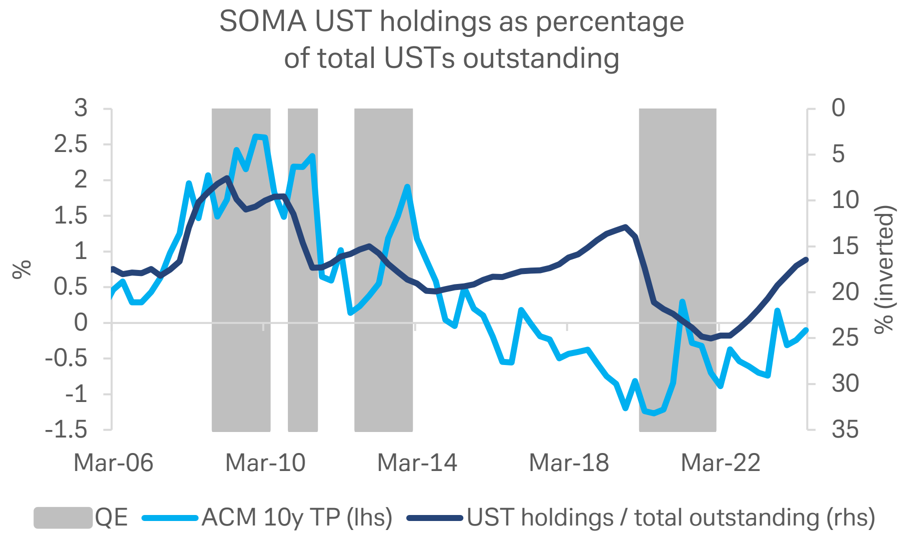


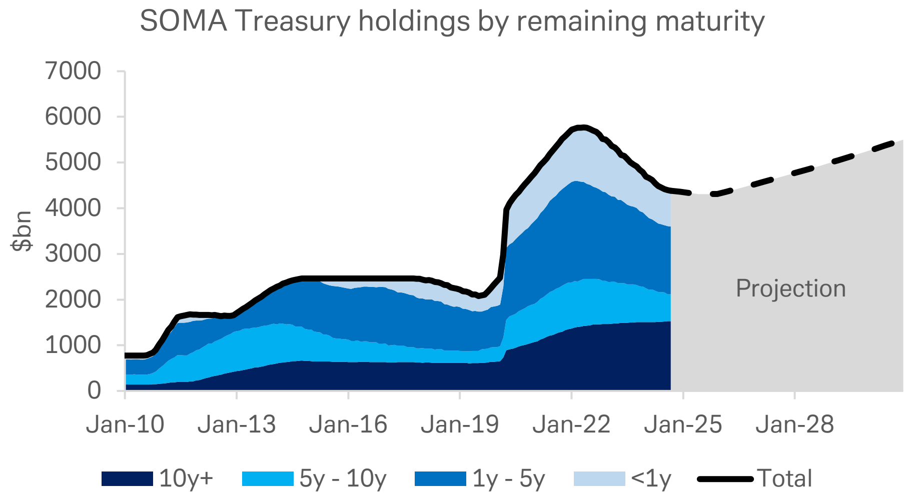
[1] *See: FRBNY Staff Report: "Dealer Capacity and U.S. Treasury Market Functionality". Treasury illiquidity measured by the first principal component of six illiquidity measures (price impact, bid-ask spread, order book depth, RMSE, price dispersion, and OTR premium). Average capacity utilization measures based on dealer gross positions, dealer net positions, gross dealer-to-customer volume, and net dealer-to-customer volume.*

Source: CBO, Accessible data for FEDS Notes, "Assessment of Dealer Capacity to Intermediate in Treasury and Agency MBS Markets"

Increased Fed intervention

- Fed large-scale asset purchases (LSAPs) have increased in frequency and size since the GFC as the effective lower bound on the Fed's policy rate has been binding
- Reduction of the Fed's balance sheet creates an extended period of uncertainty around Treasury auction sizes and resulting supply held by the private-sector
- The Fed's adoption of an ample-reserve regime requires it to hold a large quantity of Treasuries, but the long-run maturity composition of the SOMA portfolio is an open question
- Various Fed facilities (e.g., SRF, FIMA repo, and ON RRP) enhance interest rate control and support effective monetary policy implementation, but also enlarge the Fed's presence in markets and risk encroaching on private market activities





Assumes current pace of SOMA reductions through Q2 2025, and growth restarts in Q1 2026 at 5% per annum

Source: Federal Reserve Board, FRBNY

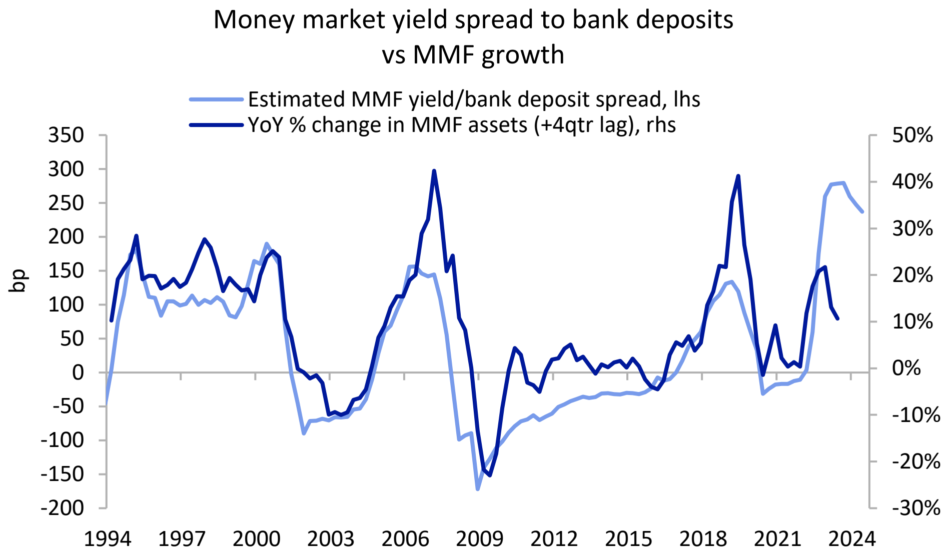
Increasing size of money market funds

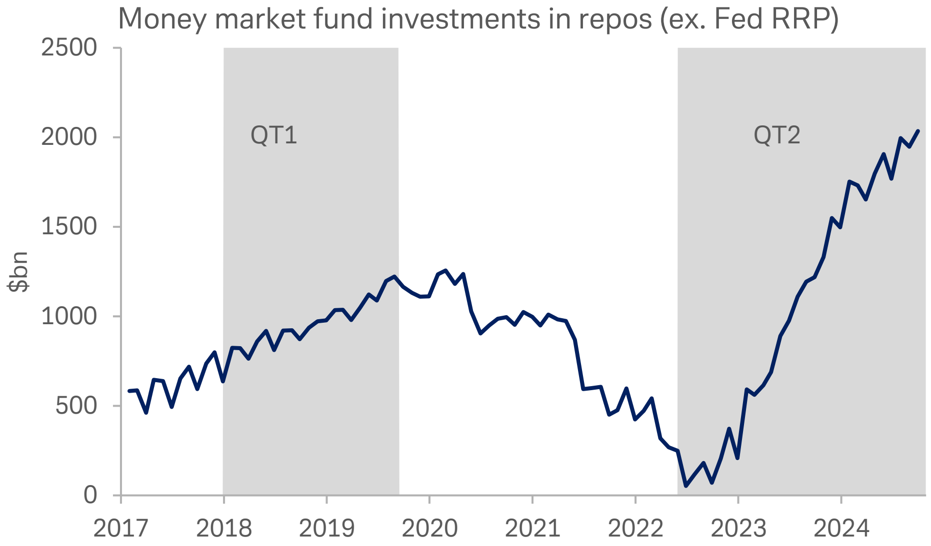
- Flight to safety during Covid, capacity constraints for banks to accept deposits, and Fed rate hikes have led to money market fund (MMF) assets doubling over the past 5 years

- MMFs transmitting a higher Fed policy rate to their investors, and banks unable or unwilling to raise deposit rates due to margin pressure, could sustain or increase the relative attractiveness of MMFs, keeping their assets elevated for the foreseeable future

- High MMF asset levels combined with weaker bank deposit growth could shift the demand for Treasuries away from the intermediate sector and toward T-bills and FRNs

- Additionally, high MMF assets could encourage the use of repo leverage, as money market funds have a higher propensity and a lower opportunity cost for lending into repo markets compared to commercial banks. This dynamic could influence the behavior of leveraged investors, such as hedge funds, and potentially drive their increased presence in the Treasury market





Source: Treasury, FDIC, Investment Company Institute, FRBNY

Shifting preferences of reserve managers and asset managers

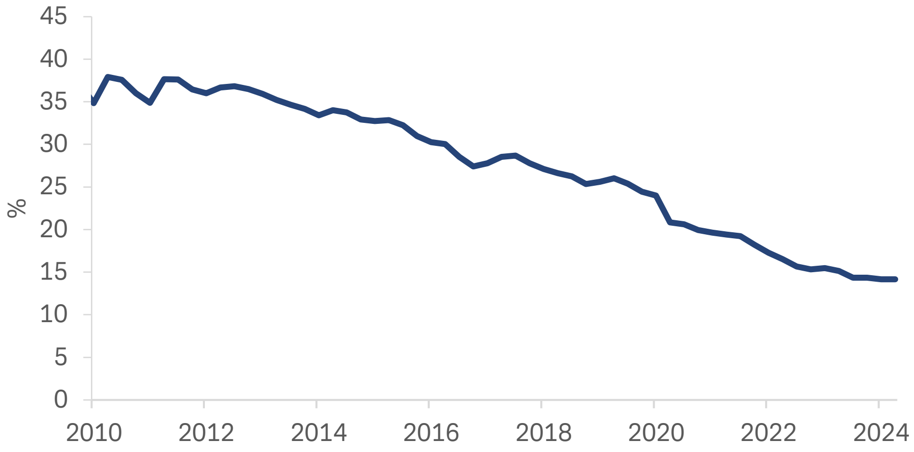
- The decline in the share of foreign ownership of Treasuries has been driven by foreign official sector as demand has not kept pace with market growth

- While cyclical factors like yields and the exchange value of the US dollar may influence demand[1], the longer-term trend since 2010 suggests that more structural elements, such as a desire for diversification and rise of alternative investment opportunities, could be driving the reduction in ownership share

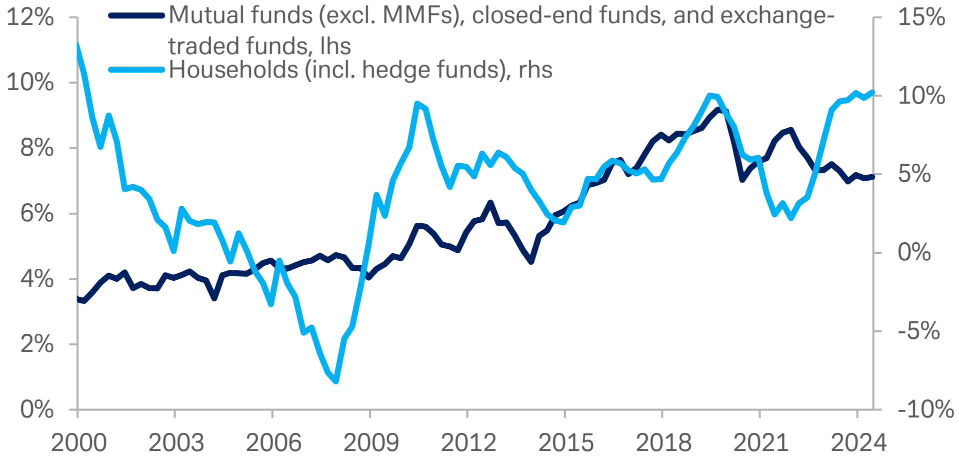
- At the same time, the share of Treasuries owned by domestic asset managers may have peaked. A previous TBAC study[2] suggests a preference shift by asset managers toward Treasury futures for a host of reasons (simplified execution, elimination of repo interest expense reporting, more flexible use of leverage)

- Persistent and elevated demand from asset managers for Treasury futures contributes to conditions for attractive basis trades, leading to a symbiotic relationship between asset managers and hedge funds and increased presence of hedge funds in the Treasury market

Foreign official holdings
as % of total Treasuries outstanding



Asset manager and household holdings
as % of total Treasuries outstanding



[1] See August 2024 TBAC discussion on outlook for demand of Treasury securities
[2] See February 2024 TBAC discussion on asset manager and hedge fund use of Treasury futures

Source: Treasury, Federal Reserve Board

Rise of non-traditional investor types

Electronic and high-frequency trading

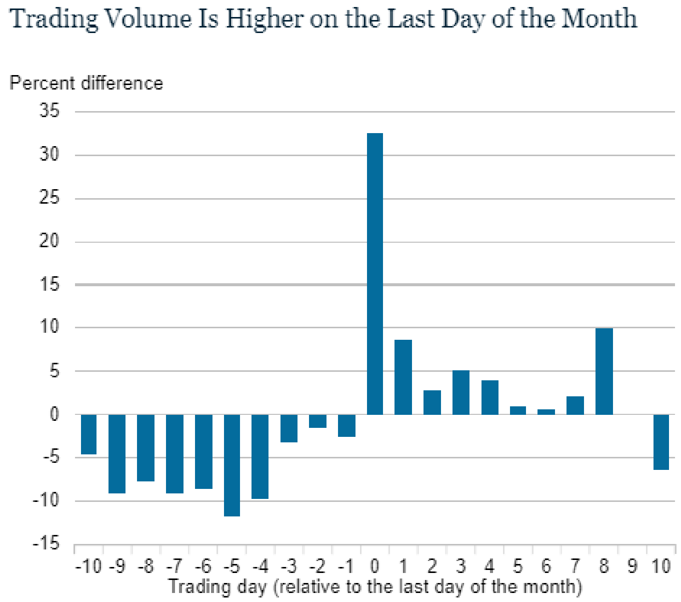
- The shift of market intermediation towards principal trading firms (PTFs) and high-frequency trading (HFT) contributes to increased market liquidity in normal market environments and helps promote efficient price discovery
- However, PTFs typically hold less capital than bank-affiliated dealers, which could increase the vulnerability of the financial system. PTFs and HFT firms may also exacerbate market stress by withdrawing liquidity amid extreme market volatility, such as during Covid
- High-frequency trading also has increased the pace of market developments, which brings faster innovation but reduces the time for the official sector to evaluate and implement policy responses in times of financial stress

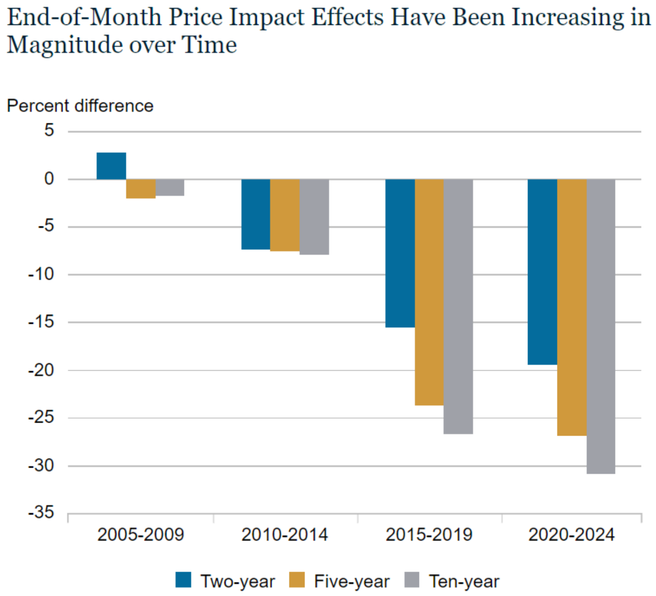
Index investing

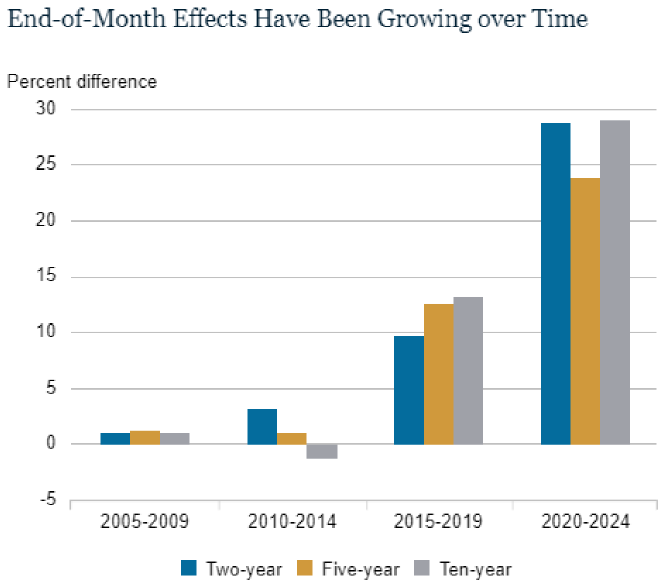
- The increasing prevalence of index investing may enhance market liquidity by increasing end-user demand for Treasuries
- However, it also increases month-end trading volumes, potentially creating a large idiosyncratic day-of-month effect as discussed in a recent Liberty Street Economics blog[1]

[1] See "End-of-Month Liquidity in the Treasury Market", Liberty Street Economics

Rise in month-end trading volume







- Both the quantity and size of Treasury settlements have grown since Covid and with the introductions of the FRN and the 20-year bond. There have been notable increases in month-end trading volume
- Trading becomes very active into the 4pm close at month-end as pensions rebalance and indexers extend to match their benchmark, with improved Treasury market liquidity on those dates

[1] See "End-of-Month Liquidity in the Treasury Market", Liberty Street Economics

Source: FRBNY

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Centrally clear the Standing Repo Facility[1]

- **Issue:** The SRF may have limited impact on funding pressures that arise from limits to dealer intermediation capacity because borrowing in the facility is not netted

- **Policy consideration:** Centrally clear SRF operations to enable netting of funds borrowed to support onward lending to other market participants

- **Improves:** Liquidity, Pricing, Financing

[1] *"To further enhance the effectiveness of our tools, the FOMC could consider the benefits of centrally clearing SRF and other open market operations. Central clearing would reduce our counterparties' cost of intermediating funding to the broader market.",* Lorie Logan speech "Normalizing the FOMC's monetary policy tools", October 21, 2024.

"Several [FOMC] participants suggested that, in order to ensure an SRF continues to be effective, it may be appropriate to study the costs and benefits of additional adjustments over time, such as moving to a cleared settlement structure.", June 2021 FOMC meeting minutes.

SLR exemptions

- **Issue:** The SLR disincentivizes banks from holding low-risk, high-quality assets because they count toward banks' total exposure, which increases the amount of costly regulatory capital they are required to hold

- **Policy consideration:** A countercyclical design to temporarily exempt Treasuries and central bank reserves from the SLR, in either a systematic or discretionary fashion, to allow banks to support market liquidity during market stress. A permanent exemption could also be considered as part of holistic update of bank capital rules that balances the liquidity needs of the financial system while preserving resilience and stability of banks

- **Improves:** Liquidity, Pricing, Economic integration

Consistent treatment of leverage expenses for cash and futures

- **Issue:** The 40-Act expense accounting requires interest expense associated with repos to be reported separately, which drives mutual funds toward the use of Treasury futures instead of cash securities

- **Policy consideration:** (a) exempt repo interest from expense ratios; (b) require disclosure of leverage expense embedded in the use of futures

- **Improves:** Liquidity, Transparency, Pricing

Address challenges for CCP implementation

- **Issue:** Central clearing for Treasuries and repo is going to be impactful, however there are outstanding implementation challenges. One is that central clearing could increase margin for clients unless and until client cross margining is more established. If that happens, leverage funds will require higher implicit financing rates in cash-futures basis trades, which could hurt demand from asset managers and increase cost to the taxpayer

- **Policy consideration:** Work with participants to develop cross-margining between FICC and CME

- **Improves:** Infrastructure, Liquidity

Month-end resiliency

- **Issue:** Increased volumes that go through in the last 15 minutes of a month-end put strains on systems and increases the risk of human error

- **Policy consideration:** A greater focus on primary dealers’ infrastructure and contingency planning; possible inclusion of month-end scenarios to stress testing

- **Improves:** Resiliency

Conclusion

- While it is difficult to isolate the impacts of IAWG initiatives, liquidity has been solid, prices have reacted sensibly to data on Fed policy and economic conditions, and market functioning has been resilient during periods of stress
- IAWG initiatives designed to increase transparency have been helpful in increasing the dissemination of information for private and public parties to evaluate market risks, with OFR data collection on bilateral repo and FINRA's release of transaction-level data as recent examples
- Potential concerns such as the large deficits, limited growth in dealer intermediation capacity compared to increases in issuance, the change in demand for Treasuries from traditional parties such as asset managers, and the growing role of PTFs in market intermediation are risk factors that should be monitored
- The IAWG should consider additional initiatives such as centrally clearing the SRF, various ways of exempting Treasuries from the SLR, and putting a greater focus on risks generated by month-end spikes in trading volume for existing stress tests

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IAWG workstreams

Initiative	Description/Motivation	Progress to-date	Future
Workstream 1 (improving the resilience of market intermediation): Investigating factors that go into market intermediation and fixing flaws helps maintain smooth market functioning in times of market stress, especially as increases in USTs outstanding have outpaced dealer balance sheet growth in recent years.			
Treasury buyback program	Improves liquidity in markets and increases dealer confidence	Launched in May 2024, cash management buybacks launched in September 2024.	The Treasury will continue buybacks and may consider incremental updates as it gains experience.
SEC dealer registration requirement	Key liquidity providers have to register with the SEC, join a self-regulatory organization, and comply with related laws	In 2022, the SEC first proposed new rules before adjusting and adopting these rules in Feb 2024. In Apr 2024, the rules went into effect.	Compliance date is in Apr 2025.
Analysis of off-the-run market structure and liquidity	Examines how potential changes in UST market structure could contribute to resilience of intermediation	From 2023 – 2024, IAWG staff analyzed off-the-run UST markets by producing liquidity measures, studying trade activity, and reaching out to market participants.	A working paper leveraging IAWG staff research is expected to be released in the future.
FINRA membership exemption amendments	Amendments reduced the scope of previous exemptions to FINRA membership	In August 2023, amendments rescinding a prior exemption were adopted such that proprietary trading firms that are SEC-registered broker-dealers must generally join FINRA.	N/A
Study on all-to-all trading	More widespread all-to-all trading could enhance the supply of liquidity in the Treasury market	In Oct 2022, IAWG staff produced a report titled “All-to-All Trading in the U.S. Treasury Market” on how Treasury market structure affects intermediation capacity.	N/A
SRF/FIMA repo	The establishment of facilities helps with pressures in money markets that affect the implementation of monetary policy	In Jul 2021, the establishment of these facilities was approved.	N/A
Workstream 2 (improving data quality and availability): Given periods of stress in the UST market, high-quality data allows public and private sectors to monitor market conditions and changes in market structure. Timely and robust data allows officials to tackle vulnerabilities in the market and respond appropriately to issues.			
FINRA end-of-day data dissemination	Release of detailed transaction data increases the transparency of the UST market	In Mar 2024, began releasing transaction-level data for OTR USTs (with trade size caps) at end of each trading day. In Apr 2024, began releasing data on uncapped transactions (6-month delayed basis).	N/A
Non-centrally cleared bilateral repo (NCCBR) transaction reporting	NCCBR is the last U.S. repo market segment lacking a transaction-level data source	Rule was finalized in May 2024, requires daily reporting of NCCBR transactions by certain brokers, dealers, and other financial companies with large exposures.	Covered brokers and dealers will be required to report data starting in early Dec 2024.
Extension of government securities dealer reports	Extension of form allows for more data on repo markets	In Jul 2024, adopted extension for the FR2004C to separately list sponsored GC and traditional triparty repo transactions.	N/A
Form PF and Form N-MFP improvements	Changes to the forms help improve reporting by market participants	In Jul 2023, changes to Form PF and N-MFP adding additional reporting requirements were adopted. In Feb 2024, changes to Form PF designed to improve monitoring of systemic risk and oversight of private fund advisers were adopted.	Compliance date for amendments is in Mar 2025.
Treasury Market Practices Group (TPMG) guidelines on voice trades	Improved guidelines help maintain consistent price transparency across voice and electronic trade execution	At start of 2024, the TMPG updated its best practice recommendations to improve clarification around publishing voice trades to electronic trading screens.	N/A
Securities lending data collection final rule	The rule gives more data and transparency on securities lending transactions	Rule adopted in Oct 2023 requiring “covered [people]” who agree to a covered securities loan to provide information to a registered national securities association.	N/A
TRACE data enhancements	Improvements to TRACE data allow for officials to receive and analyze data in a timelier fashion to gain additional insights into UST transactions	In Aug 2022, rule amendment enabling the release of aggregated UST data on a more frequent basis was approved. In Feb 2023, FINRA replaced weekly reports on aggregate Treasury securities data with daily and monthly reports that provided additional information. In May 2023, FINRA began requiring members to report transactions as soon as practical (no later than 60 minutes from the time of execution). In Nov 2023, FINRA started requiring members to report the time that transactions were executed to the finest increment possible.	N/A

Source: IAWG staff progress reports

IAWG workstreams (cont.)

Workstream 2 (improving data quality and availability): Given periods of stress in the UST market, high-quality data allows public and private sectors to monitor market conditions and changes in market structure. Timely and robust data allows officials to tackle vulnerabilities in the market and respond appropriately to issues.			
Initiative	***Description/Motivation***	***Progress to-date***	***Future***
Study of data available in UST markets	A better understanding of available data helps the IAWG identify and investigate potential areas of improvement	In Mar 2023, the TMPG released a white paper on availability of data in Treasury markets based on research, outreach to market participants, and previous notes from 2021 to 2022.	N/A
Participant identifiers	The universal use of legal entity identifiers (LEIs) would help streamline data compilation on market participants	In 2022, IAWG staff formed a working group to evaluate the official sector's ability to identify participants' activities across data collections. The working group identified several potential solutions focused around the use of common entity identifiers in data collections.	N/A
Workstream 3 (evaluating expanded central clearing): Central clearing is used to reduce risk and improve efficiency, but certain sectors in the UST market are not centrally cleared. Bringing central clearing to these sectors brings benefits and downsides.			
Adoption of SEC rules on clearing of UST transactions	Rules were amended to reduce risks, improve market efficiency, and increase regulatory visibility into the market	Amendments proposed in Sept 2022 to improve risk management and provide clearing for certain transactions. All direct participants in covered clearing agencies (CCAs) were to submit eligible secondary market transactions in USTs for clearance and settlement. In Dec 2023, these amendments (with modifications) were adopted.	Amendments on expanded access to clearance and settlement services, improvements to CCAs' risk management practices, and protection of customer assets have a compliance date in Mar 2025. Compliance by CCAs' direct participants is required by Dec 2025 and Jun 2026 respectively for cash and repo transactions. The FICC has filed three sets of proposed changes to rules aimed at implementing SEC amendments to CCA standards. SEC staff are currently reviewing the proposals.
Enhancements to cross-margining	The changes improved efficiency and reduced risks through the modification of procedures and eligible products	In Sept 2023, CME and FICC rule changes enhancing the cross-margining arrangement were approved, with these changes launched in Jan 2024.	N/A
Study of Secured Financing Transactions (SFT)	Studying SFTs allows for the identification of potential risk and resiliency issues	In Nov 2021, the TMPG released note on current clearing and settlement processes for common SFT types. In Nov 2022, the TMPG published a white paper on potential risks in SFT clearing and settlement.	N/A
Workstream 4 (enhanced trading venue transparency and oversight): Effective oversight of trading venues is important as their efficiency and effectiveness affects the authorities' goals for Treasury market resilience.			
Proposals to amend Regulations ATS and SCI	With Alternative Trading Systems (ATSs) becoming a large player in the interdealer UST market but with less regulatory oversight compared to their counterparts in credit or equity markets, applying additional regulations to ATSs would improve transparency and protect investors	In 2020, original proposal on ATSs which participate in repo transactions collateralized by USTs was submitted. In 2022, the SEC re-proposed these changes and suggested broadening definition of exchanges in an SEC rule to include marketplaces that offer the use of non-firm trading interest and communication protocols to bring together buyers and sellers of securities. In Apr 2023, the SEC amended definition of exchanges, provided information on how this proposal would apply to crypto, and solicited comments on alternative rule text to the 2022 proposal, reopening the comment period in the process.	The SEC continues to review and analyze comments on the proposed changes to Regulations ATS and SCI.

Source: IAWG staff progress reports

IAWG workstreams (cont.)

Workstream 5 (examining effects of leverage and fund liquidity risk management practices): Given the growing influence of hedge funds and open-end funds on the UST market and the highly-leveraged nature of the latter, they pose a risk to market stability (especially during periods of financial stress) as they can magnify the impact of price movements.			
Initiative	***Description/Motivation***	***Progress to-date***	***Future***
Activities of the Hedge Fund Working Group (HFWG)	The HFWG monitors vulnerabilities in the UST market stemming from hedge funds, helping address risks to market stability	In Jul 2024, the OFR launched a hedge fund monitor which provides the public with data on hedge fund leverage. The HFWG briefed the Financial Stability Oversight Council on the latest developments in risks related to hedge funds and policy initiatives on these risks. Based on case studies, HFWG staff have identified three channels where hedge funds create stability risks.	The HFWG continues to refine its risk monitoring framework to proactively address threats. The HFWG has been monitoring the growth of the basis trade and the increase in hedge fund borrowing. The HFWG has continued studying potential vulnerabilities stemming from haircutting practices in NCCBR market given the popularity of the basis trade.
Activities of the Treasury Market Practices Group (TMPG)	The TMPG supports the integrity and efficiency of the UST, agency debt, and agency MBS markets	In 2024, the TMPG established a working group to review best risk management practices for service providers, critical venues, and clearing and settlement services given cyber events that had occurred recently. In 2023, the TMPG established a working group to better understand risk management practices in NCCBR market, conduct outreach to market participants, and consider potential changes to TMPG best practice recommendations.	The TMPG is drafting a white paper on NCCBR risk management practices after reaching out to market participants. It also plans to consider potential additions or revisions to its best practice guidance. The TMPG continues to engage on topics related to the SEC's central clearing rule, including access models at FICC and SIFMA's Treasury Clearing Standardized Documentation Project. The TMPG has continued its study of risk management practices in the NCCBR market.
Mutual fund reforms	Mutual fund reforms address problems experienced during the pandemic and provide a larger liquidity buffer in the event of rapid redemptions	In Nov 2022, the SEC voted to propose amendments to better prepare open-end funds for stressed conditions and mitigate the dilution of shareholders' interests. In Jul 2023, the SEC adopted amendments designed to reduce the risk of investor runs on MMFs during periods of market stress.	N/A
Activities of the Open-end Funds Working Group (OFWG)	The establishment of the OFWG provides for additional information around risks presented by open-end funds	In 2021, the Financial Stability Oversight Council established the Open-end Fund Working Group (OFWG) for agencies to share information and knowledge on risks to financial stability from open-end funds. In Feb 2022, the Financial Stability Oversight Council issued a statement on nonbank financial intermediation that highlighted its work evaluating and addressing the risks to financial stability, including updated findings from the OFWG and the HFWG which highlighted the roles of certain types of funds in market disruptions during the onset of the pandemic.	The OFWG will continue to monitor risks from open-end funds going forward.

Source: IAWG staff progress reports

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