Written Testimony of Tom Wipf, Managing Director at UBS, serving as CEO of Credit Suisse US Entities, on behalf of the Securities Industry and Financial Markets Association (SIFMA)

Before the U.S. House of Representatives

Financial Services Committee

Task Force on Monetary Policy, Treasury Market Resilience, and Economic Prosperity

Hearing Entitled:

"U.S. Treasury Debt in the Monetary System"

April 8, 2025

Introduction

Chairman Lucas, Ranking Member Vargas and distinguished members of the Task Force, thank you for the opportunity to testify today on the U.S. Treasury market. My name is Tom Wipf. I am Managing Director at UBS, currently serving as the CEO of Credit Suisse Entities, responsible for the integration of the Credit Suisse acquisition in the U.S. I'm here today as a Board Member of the Securities Industry and Financial Markets Association. In relation to the topic of today's hearing, from 2007 through 2019, I served as the Chair of The Treasury Market Practices Group (TMPG), a group sponsored by the Federal Reserve Bank of New York that focuses on the Integrity and efficiency of the Treasury Market, Agency Debt and Agency Mortgage Backed Securities. I also had the pleasure of testifying before this Committee in 2021 when I served as the Chair of the Alternative Reference Rate Committee (ARRC) a group of private-sector participants convened by the Fed to ensure a successful transition from LIBOR.

Treasury Market Overview

U.S. Treasuries are debt instruments issued by the U.S. government to finance its activities. Owing to the United States' creditworthiness and status as the world's leading economy, the U.S. Treasury market is the largest and most liquid bond market on the planet. Its smooth functioning is essential to: (1) achieving the lowest cost to taxpayers over time in connection with the financing of our debt, and (2) the overall efficient operation of the financial system and, more broadly, the world economy.

Since U.S. Treasuries are backed by the full faith and credit of the U.S. government, these securities are considered by market participants as the benchmark credit against which all other debt securities are compared. As a result, U.S. Treasury yields have an impact on the rates that consumers, businesses, and governments across the globe pay to borrow money. In addition, the U.S. Treasury repo market is a key transmission mechanism for U.S. monetary policy and is vital to the liquidity of the cash treasury market. Put simply, the Treasury markets are the bedrock of the global financial system.

The Treasury markets operate through a dealer-based structure with "primary dealers" – banks and broker-dealers that have been designated as counterparties of the Federal Reserve Bank of New York (FRBNY) – acting as the largest buyers of new Treasury debt and as market-makers or intermediaries in the secondary markets. Treasury securities are widely held and actively traded by public and private institutions including central banks, corporations, individuals, and institutional investors. Financial institutions, including banks, insurance companies, mutual funds, and pension funds, hold a third of Treasury securities.[1]

[1] https://www.sifma.org/resources/research/statistics/us-treasury-securities-statistics/

Growth of U.S. Treasury Market

The Treasury market has grown significantly in recent years. Notably, recent market episodes have raised concerns about the structural resilience of the Treasury market and the capacity of market participants to intermediate the trading of these instruments without disruption. Today, there are $28 trillion Treasury securities outstanding, more than double the total from 2016 ($13.9 trillion) and nearly quadruple the total from 2009 ($7.3 trillion).[2] This trend is likely to continue, as the Congressional Budget Office (CBO) estimates that outstanding debt is expected to hit $48 trillion by 2034.

In a similar fashion, Treasury issuance has also increased significantly in recent years. In the 10 years prior to COVID, Treasury issuance averaged just under $1 trillion in privately held net marketable securities per year. Even when you exclude issuance in 2020, which saw elevated Treasury issuance due to government programs to support the U.S. economy (roughly $4 trillion), Treasury issuance has remained significantly higher than the pre-covid average with $3.1 trillion issued in 2023 and $2.4 trillion issued in 2024. Current estimates for 2025 would follow a similar trend with an estimated $2.3 trillion in issuance.[3]

In sum, the Treasury securities market has experienced exponential growth in a relatively short period of time and is likely to continue growing in the coming years, underscoring the robust demand for, and importance of, these securities.

Balance Sheet Capacity

While issuance has expanded significantly, the capacity for dealers to intermediate has become increasingly constrained as a result of the application of additional capital and prudential requirements instituted in wake of the Global Financial Crisis.

These requirements include the Supplementary Leverage Ratio (SLR), which applies to banking organizations with over $250 billion in assets or meet other criteria, and the “enhanced SLR” (eSLR), which applies to U.S. global systemically important banks (GSIBs). The SLR and other leverage requirements are intended to be risk-agnostic backstops to risk-based capital requirements. Under risk-based capital rules, Treasuries and reserves held at Federal Reserve banks are assigned zero percent risk-weights, essentially treating them as equivalent to cash (i.e., free of credit risk). Under the SLR and other leverage ratios, those holdings receive equal weight to far riskier and higher-returning assets. The more punitive leverage requirements, in effect, create binding constraints for some large dealer banks, reducing bank dealers’ capacity to intermediate in the Treasury markets. Recognizing this, the U.S. banking agencies decided to temporarily exclude Treasuries (and central bank reserves) from the SLR and eSLR calculation as

[2] Id.
[3] https://www.sifma.org/wp-content/uploads/2024/04/SIFMA-Insights-Fixed-Income-Market-Structure-Compendium_2-26.pdf

part of their response to the pandemic-induced stresses witnessed in the March/April 2020 "Dash-for-Cash" episode.

Beyond these existing leverage requirements, the banking regulators have proposed other changes to the suite of macroprudential rules that would further strain dealer capacity. Notably, the original US Basel III Endgame proposal included capital increases to banks' trading book through the Fundamental Review of the Trading Book (FRTB). Initial estimates suggest that the FRTB portion of the proposal would increase the risk-weighted assets (RWA) for largest banks' trading activities by 75%. This increase in capital would force large banks to rationalize their balance sheet capacity to focus on high-return capital markets activities. Given that market-making in U.S. Treasuries is a low-return business relative to that of other asset classes, banks would be incentivized to allocate only a very limited portion of their balance sheet to those activities.

Additionally, as proposed, the revised GSIB surcharge would inhibit liquidity in the Treasury futures markets. Specifically, the proposal changes the treatment of client-facing derivatives transactions – including U.S. Treasury futures and options that are cleared via central counterparty. Given the linkages between prices, trading, and market-making activities that connect the cash, repo, and futures markets, this could have significant effects on overall Treasury market liquidity and raise costs for market participants. As regulators consider these and other proposed changes, it is essential that they consider and incorporate the impact on liquidity in the Treasury market.

Treasury Clearing: Further Enhancing Resiliency

The industry has long sought to ensure improvements to the overall resiliency of this important market. Best practice recommendations with respect to clearing and settlement issued by the TMPG seek to promote the integrity and efficiency of the Treasury market and help inform where risks may lay within the clearance and settlement ecosystem. Today, U.S. Treasury transactions are either settled bilaterally or cleared centrally through DTCC's Fixed Income Clearing Corporation (FICC). The Securities Exchange Commission's (SEC) finalized a rule in December 2023 on the clearing of U.S. Treasury securities (Treasury Clearing Rule).[4] It will require most market participants to centrally clear eligible cash and repo transactions. This requirements and others of the rule will impose significant changes to market structure. These regulatory changes, and the recent increases in the volume of cleared transactions, will contribute to the continuing efforts to reduce risks within the Treasury market and, thus, enhance its systemic resiliency.

We remain steadfast in our efforts to operationalize the clearing mandate. Over the past year, SIFMA has been working with its members, both buy side and sell side, and other market

[4] Rule 17ad-22(e)(18)(iv)(A) and (B)

participants to develop standardized documentation, policies and procedures to facilitate the transition to mandated central clearing.[5]

At the same time, SIFMA and its member firms were gratified to see SEC Acting Chairman Uyeda and the Commission extend the implementation date for mandated central clearing of Treasury securities and repurchase agreements. The additional time will help ensure a smooth transition and avoid disruption. This is critical given the importance of the Treasury market to the financial system and the economy. It is particularly needed at this time given the large volume of Treasury issuance expected in the coming years.

Beyond this reprieve in timing, we think the SEC will need to address certain technical concerns about several provisions of the rule that could impact the overall scope and disrupt parts of this market. Most notably, the SEC will need to clarify that mixed CUSIP triparty repos (triparty repo transactions that include Treasury collateral but are meant to primarily finance a different and out-of-scope class of securities) are not subject to clearing. Without such clarity, the scope of the clearing rule could expand well beyond the policy objectives with respect to the U.S. Treasury market. In addition, the SEC should revise the existing inter-affiliate exemption to eliminate the conditions that decrease its utility. Failure to address this concern could weaken firms' risk management and hedging activity. Finally, the SEC needs to eliminate double margining for investment managers as it risks reduced trading and liquidity.

Conclusion

The U.S. Treasury market remains the most important financial market in the world. Any disruption to this market could strain financial stability, given the central role of the U.S. Treasury markets in the global financial system. Any reform of the Treasury market should enhance liquidity and market resiliency and preserve the capacity of dealers and other market participants to meet the growing demand for, and supply of, Treasury securities.

[5] https://www.sifma.org/wp-content/uploads/2024/11/USTC-ConsiderationsReport_SIFMA-EY.pdf

Appendix A:

Fostering Liquidity and Resiliency in US Treasury Markets

Date: June 24, 2024
By: Robert Toomey and William Thum
Issue: Treasury Market Structure, Treasury Clearing
Committee: Asset Management, Capital Markets

Conversations from the ISDA/SIFMA Treasury Clearing Forum

The U.S. Treasury market is the largest and most liquid bond market on the planet. Its smooth functioning is essential to the overall efficient operation of the global financial system. The market has grown significantly in recent years and is likely to continue growing rapidly in the future. Notably, several market disruption events have raised structural questions and concerns about the capacity of the system to intermediate the trading of these instruments.

At the recent ISDA/SIFMA Treasury Forum in New York City, market participants gathered to discuss the market outlook and initiatives to reform its structure.

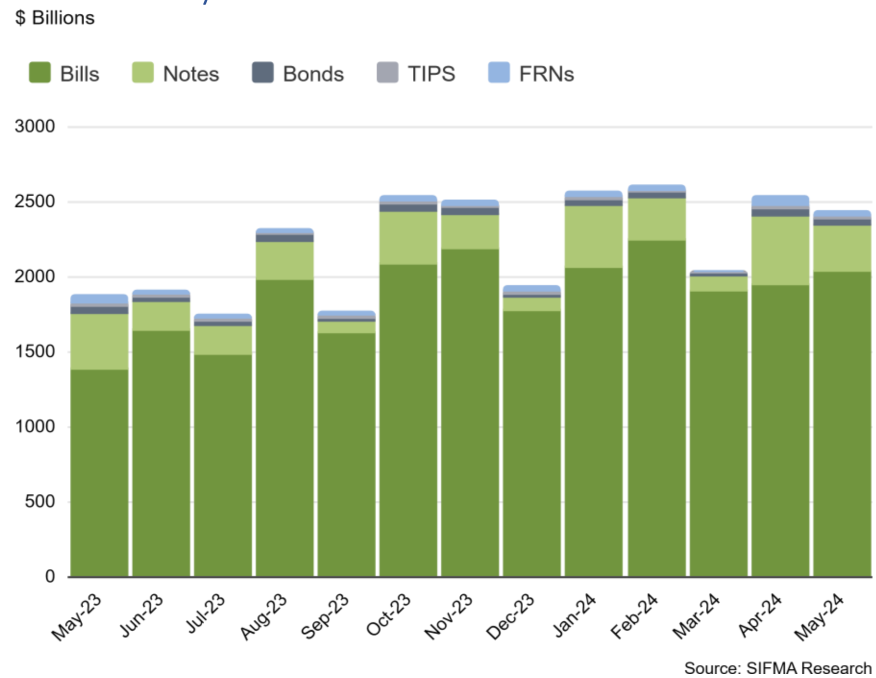
The Outlook for US Treasury Markets

The U.S. federal government finances its operation, in part, by selling various types of securities. All these Treasury securities – including Treasury bills, notes, and bonds – are debt obligations issued by the U.S. Department of the Treasury and are backed by the full faith and credit of the United States government.

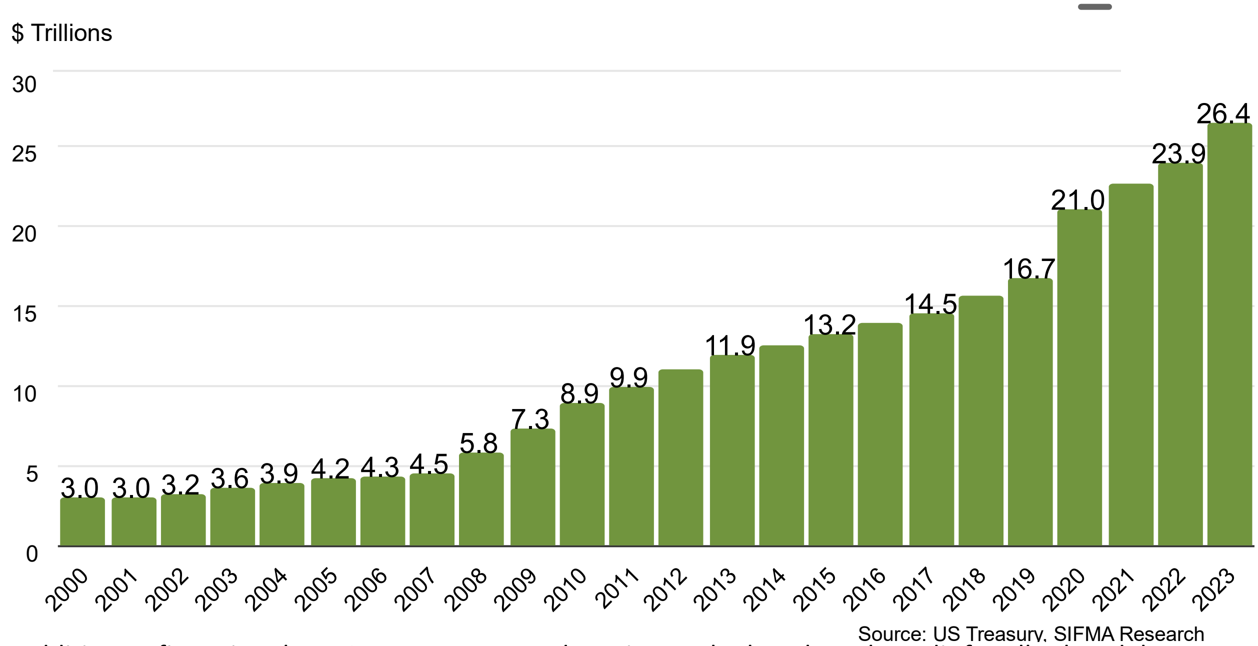
Because of the United States' creditworthiness and status as the world's leading economy, U.S. Treasury securities are considered by market participants as the benchmark credit against which all other debt securities are compared. They are widely held and actively traded by public and private institutions including central banks, corporations, individuals, and institutional investors. The U.S. Treasury market underpins every other financial market and is the bedrock of the global financial system. It accounts for nearly 60% of outstanding securities in U.S. fixed income markets.

U.S. Treasuries outstanding are $27 trillion, up from $12 trillion just a decade ago. Issuance is at record highs and outstanding debt is expected to hit $48 trillion by 2034, according to the Congressional Budget Office (CBO).

U.S. Treasury Securities Issuance

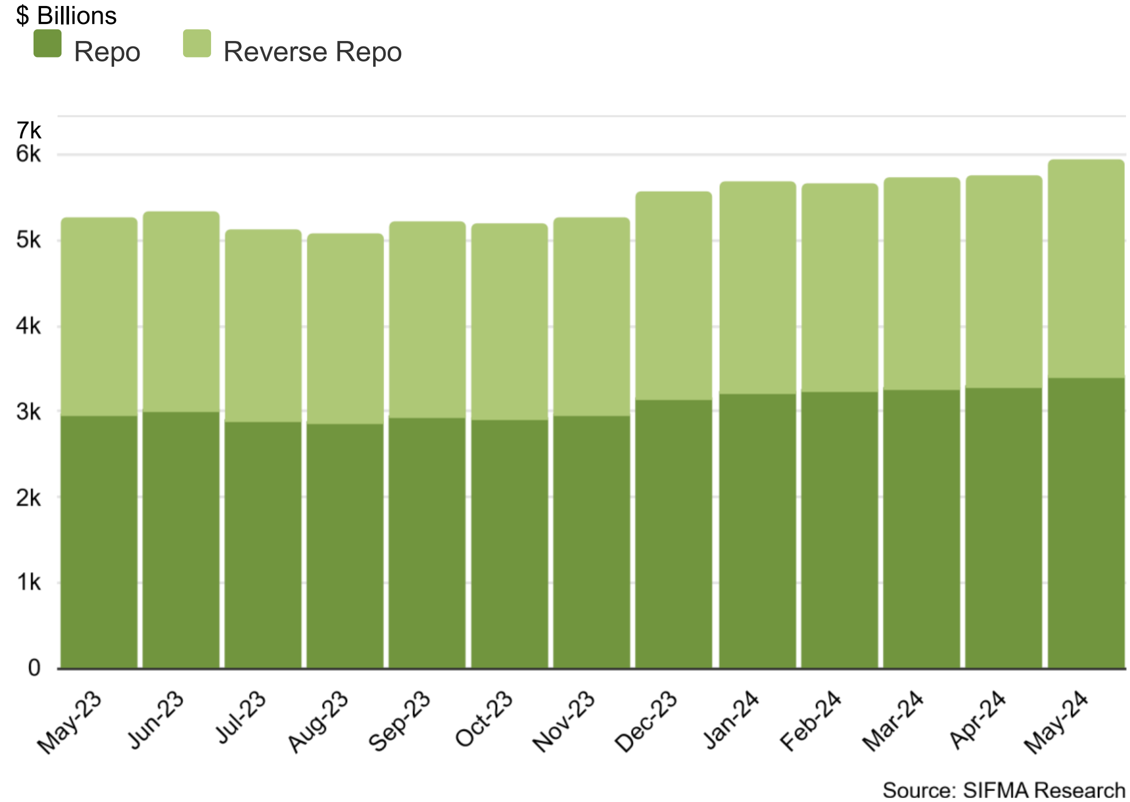


U.S. Treasury Securities Outstanding



In addition to financing the U.S. government and serving as the benchmark credit for all other debt securities, asset managers and other buy-side investors transact in U.S. Treasury securities for short-term investing or to post those U.S. Treasury securities as collateral for other financial products. The U.S. Treasury repo market also serves as a significant source of financing for banks as asset managers transfer excess cash to the banks in exchange for U.S. Treasuries as collateral. In addition to focusing on structural issues in cash trading, proposed reforms look to transition the largely bilateral U.S. Treasury repo market to a centrally cleared structure.

U.S. Primary Dealers Repo Outstanding



An Overview of the Regulatory Agenda

Treasury market reforms are all focused on improving the capacity and resiliency of this important market – and to mitigate risks arising from extreme volatility events we have seen over the last 10 years. There are four broad categories of Treasury market structure reforms that are being considered. These are:

1. **Regulatory Changes:** Changes to prudential banking regulation that disincentivize the holding of U.S. Treasury securities by intermediaries;
2. **Clearing:** Greater use of centralized clearing;
3. **Transparency:** Increased public dissemination of Treasury market transaction data; and
4. **Official sector activities:** A standing repo facility (instituted by the New York Fed) provides a backstop to moderate sources of extreme volatility in the Treasury repo market and a buyback program by the U.S. Treasury enhances the liquidity profile of the less liquid portions of the market.

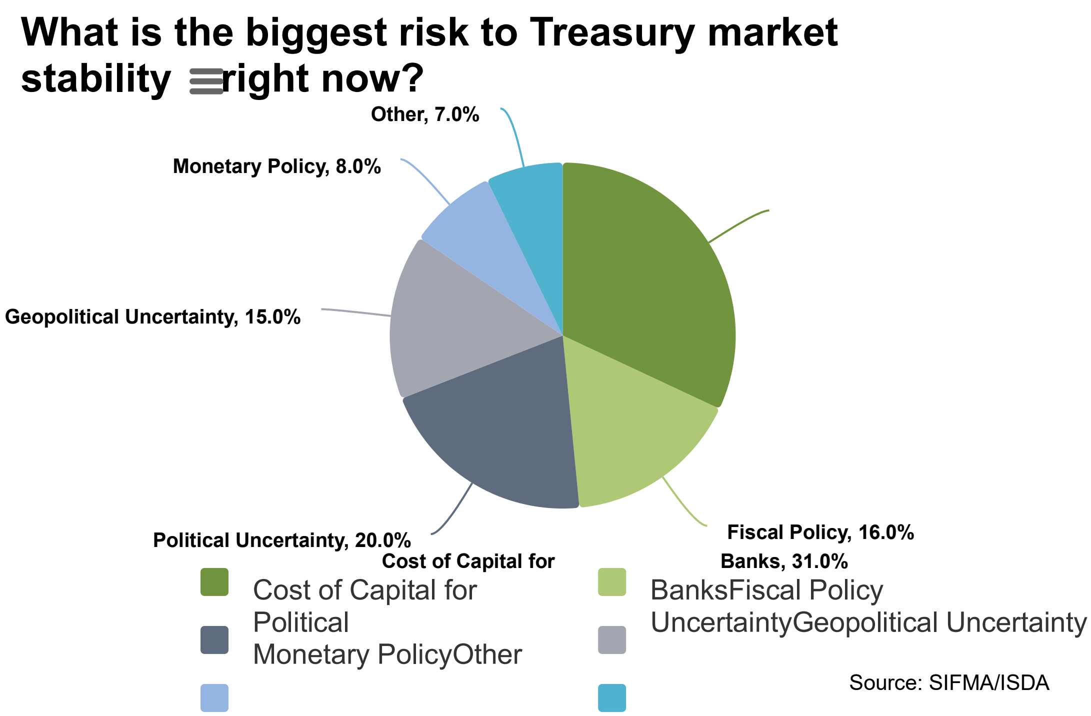
The latest report from the Inter-Agency Working Group on Treasury Market Surveillance (IAWG) – which is composed of staff from the U.S. Department of the Treasury, the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York, the U.S. Securities and Exchange Commission, and the U.S. Commodity Futures Trading Commission – details how these measures are moving forward. At the ISDA/SIFMA event, Josh Frost, Assistant Secretary for Financial Markets at the U.S. Treasury provided details on the Treasury's buyback initiative and noted its intent to buy old and infrequently traded "off-the-run" securities in an effort to foster market liquidity and market functioning. With the

Treasury as a regular buyer, dealers should have more confidence to make markets in off-the-run securities. It should also serve to free up dealer balance sheets. Frost has noted that the idea of a sovereign debt buyback is not new. There have been two major periods of debt redemptions for U.S. Treasury securities: first in the 1920s and later in the early 2000s, both at times of budget surpluses.

A Question of Capacity

As U.S. government debt issuance has grown, new bank capital requirements have constrained dealer balance sheet capacity and therefore their ability to intermediate in U.S. Treasury markets. Recent proposals, including elements of the Basel III Endgame, proposed trading book capital increases through the Fundamental Review of the Trading Book (FRTB), as well as the proposed global systemically important bank (GSIB) surcharge, would likely result in a further contraction of dealer balance sheet capacity. In addition to these additional capital-based capacity constraints, the proposed minimum haircut framework for securities financing transactions (SFTs) could severely disrupt the functioning of the Treasury repo market.

Indeed, Forum attendees noted the cost of capital for banks as the biggest risk to Treasury market stability.



The market's response to capital proposals has overwhelmingly been that prudential regulations must be implemented in a manner that does not overly penalize banks' capital markets activities, and thus reduce liquidity in U.S. Treasury markets as well as corporate and other funding markets, thereby hurting growth in the real economy. For a detailed discussion on the causes and impact of constrained dealer capacity on Treasury market resiliency, please see SIFMA's two-part blog, Revisiting U.S. Treasury Market Capacity and Resiliency.

As the agencies consider the negative effects of these prudential reforms, they must also consider the risk that the negative effects could be compounded by other new market structure rules. Notably, this includes measures designed to increase public transparency in less liquid market segments, requirements that certain additional classes of market participants be registered as broker-dealers, and the SEC's central clearing mandate – more on that next.

Preparing for Mandated Clearing

Today, U.S. Treasury transactions are either settled bilaterally or cleared centrally through DTCC's Fixed Income Clearing Corporation (FICC). The Securities Exchange Commission's (SEC) new rules, finalized in December 2023, will require most market participants to centrally clear cash and repo U.S. Treasuries, imposing significant changes to market structure.

"Treasury cash clearing is required to go into effect by the end of 2025, and repo clearing is required to go into effect by June 30, 2026," explained Michelle Neal, Head of the Markets Group for the Federal Reserve Bank of New York. "While these dates may sound far off now, the time will pass quickly given the complexities involved."

These deadlines present challenges to the industry given the significant regulatory, market structure, documentation, and operational hurdles to be simultaneously addressed – and overcome – in a very limited timeframe. SIFMA has mobilized its members on several workstreams aimed to efficiently and expeditiously advance the transition to this new market structure.

A key workstream is developing market standard documentation for repo clearing that is intended to accelerate the on-boarding of market participants by broker-dealer clearing house members. SIFMA is also engaging with market participants to address market structure issues in transitioning the existing cleared repo market in which participants trade with, and clear through, a single clearing member, to one more akin to the futures or cleared swaps market where participants can trade with anyone with those trades given up for clearing by the clearing member.

Another significant workstream will develop an operational implementation timeline with key milestones to aid market participants. We are also working to resolve other significant interpretive issues that could be impediments to a smooth transition.

To learn more, listen to our recent podcast, The Path to Clearing U.S. Treasuries and visit our new Treasury Clearing Resource Center.

Conclusion

In conclusion, the U.S. Treasury market remains the most important financial market in the world. It is therefore critical that the impact of any proposed initiatives and reforms must be to enhance market resiliency and increase market-making capacity.

A sincere thanks to our colleagues at ISDA for co-hosting this valuable Forum and to those who joined us in New York. The next several months, and this summer in particular, will be a busy time for all of us and it is critical for the markets that we keep an open dialogue.

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Robert Toomey is Head of Capital Markets/Managing Director and Associate General Counsel at SIFMA.

William Thum is Managing Director and Associate General Counsel, Asset Management Group at SIFMA.

Appendix B:

January 24, 2025

Mark T. Uyeda

Acting Chairman

Securities and Exchange Commission

100 F Street NE

Washington, DC 20549-1090

Re: ***File No. S7-23-22: Standards for Covered Clearing Agencies for U.S. Treasury Securities and Application of the Broker-Dealer Customer Protection Rule with Respect to U.S. Treasury Securities***

Dear Acting Chairman Uyeda:

The Securities Industry and Financial Markets Association ("SIFMA")[6], its Asset Management Group ("SIFMA AMG"), Managed Funds Association ("MFA"), Futures Industry Association ("FIA"), FIA Principal Traders Group ("FIA PTG"), International Swaps and Derivatives Association ("ISDA"), Alternative Investment Management Association ("AIMA"), The Institute of International Bankers ("IIB") (collectively, the "Associations"), are submitting this letter on behalf of our respective members (the "association members") relating to the implementation of the Securities and Exchange Commission's ("SEC") rule concerning clearing of cash transactions and repurchase agreements ("repos") involving U.S. Treasury securities ("Clearing Rule").

We are writing to request an extension of the implementation dates for the Clearing Rule by, at a minimum, 12 months, to allow the SEC time to consider and address several critical issues requiring resolution and for the industry (including covered clearing agencies ("CCAs"), clearing members, and participants) to have sufficient time to develop and implement clearing. Given the complexities and

[6] Descriptions of each industry association signatory to this letter are included in an appendix.

inter-dependencies of many of the items required for successful implementation, the Associations may need to further engage with SEC staff regarding timelines if unforeseen complexities develop. While critical issues related to the future liquidity in Treasury markets are within the SEC's remit (inter-affiliate exemption, tri-party transactions, double margining, etc.), it is important to note that there are other issues (bank capital, extraterritorial impact, "done-away" market development, documentation standardization, and client onboarding, etc.) which also need to be addressed for the Clearing Rule to be a success, requiring cooperation and collaboration between the SEC, the CFTC, banking regulators, and overseas regulators. The Associations are happy to work with the SEC on the legal form of any such relief.

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

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

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

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

Background:

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

The Clearing Rule requires firms that today do not participate in central clearing to develop the legal, operational, and business infrastructure to enter cleared markets. Firms that today are members of CCAs will need to upgrade systems, operations, and legal relationships with the CCAs and with their customers to allow access to central clearing consistent with the new CCA requirements in the Clearing Rule. Given the size and importance of the U.S. Treasury market, this presents significant challenges to many market participants to comply.[7] Although implementation of the Clearing Rules is an utmost priority for market participants, which are dedicating significant amounts of time and capital to implementation, we believe the current timeline will not allow for critical issues to be resolved and adequate time for all market participants to transition into cleared Treasury markets.

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

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

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

Hurdles to Implementation

To meet the requirements to clear within the timeframes required by the SEC, market participants have been working diligently developing the market structures, legal documentation, and operational models to facilitate the transition to central clearing. In addition to the publication of the SIFMA/EY Report, SIFMA has published market standard documentation for "done-with" repo clearing and is hard at work in clarifying the "done-away" market structure to develop standard documentation for "done-away" repo clearing. However, as noted in the SIFMA/EY Report, there are a significant set of issues and considerations that will need to be resolved to achieve a non-disruptive implementation.

Important issues related to the scope of the Clearing Rule remain unresolved, as articulated in SIFMA's request for no-action relief, and as currently highlighted in the public comment file for the proposed rule changes that the Fixed Income Clearing Corporation ("FICC"), in its capacity as a self-regulatory organization ("SRO"), was required to file under the Clearing Rule to address requirements around the submission of eligible secondary market transactions. These include the treatment of mixed CUSIP triparty transactions, the extraterritorial scope of the Clearing Rule requirements, and the usefulness of the inter-affiliate exemption.[8] Mixed CUSIP triparty transactions (i.e., transactions which include non-Treasury securities as well as Treasury securities) should not be subject to clearing as this would inappropriately increase the scope of transactions and products expected to be cleared beyond the intent of the Clearing Rule. Similarly, a failure to address concerns around the inter-affiliate exemptions could render that exemption unusable or inappropriately adversely impact the ability of large and complex institutions to manage their liquidity and collateral needs, as well as increase the expected scope of entities' activities subject to clearing requirements.[9] A lack of clarity regarding the extraterritorial scope of the rule could lead foreign investors to withdraw from the Treasury securities market, among other negative consequences.[10]

These consequential issues need to be resolved so that market participants understand what is meant to be included within the clearing requirements and what activities may be impacted. In addition, the resolution of these many important issues will require more time than the current February 26, 2025 deadline for final SEC action on FICC's proposed eligible secondary market transaction trade submission rules currently allows.[11]

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

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

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

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

Also, the interaction of the Clearing Rule with the requirement for SEC-registered funds to have their repo transactions collateralized fully needs to be addressed to avoid the potential for double margin as transactions transition to clearing. Failure to resolve this issue may render repo transactions to become uneconomical and thereby limit the ability of key liquidity providers to remain active in the Treasury repo market.[12]

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

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

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

Conclusion

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

However, the importance of the Treasury market to the financial system and the economy, along with the expected significant issuance of Treasury securities in the coming years, argues for an implementation timeline for the Clearing Rule that allows for a smooth transition so as not to disrupt this

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

market. We believe that the current timeline will not afford time for critical issues to be resolved in a timely manner that will serve as a foundation for the successful implementation of the clearing mandate.

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

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

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

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

Ken Bentsen

President & CEO

SIFMA

/s/ Jennifer W. Han

Jennifer W. Han

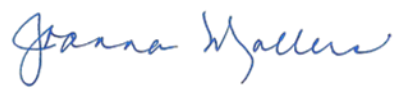
Chief Legal Officer & Head of Global Regulatory Affairs

MFA

Walt Lukken

President & CEO

FIA



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FIA PTG

Scott O'Malia

Chief Executive Officer

ISDA

Jiří Król

Deputy CEO, Global Head of Government Affairs

AIMA

Beth Zorc

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Caroline Crenshaw, SEC Commissioner

David Saltiel, Acting Director, SEC Division of Trading
and Markets

Elizabeth Fitzgerald, Assistant Director, SEC Division of Trading and Markets

Natasha Vij Greiner, Director, SEC Division of Investment Management

Kaitlin C. Bottock, Co-Chief Counsel, SEC Division of Investment Management

Brian Smith, Assistant Secretary of Financial Markets (Acting), United States Treasury

Appendix – Description of Industry Association Signatories

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

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

MFA - Managed Funds Association (MFA), based in Washington, D.C., New York City, Brussels, and London, represents the global alternative asset management industry. MFA's mission is to advance the ability of alternative asset managers to raise capital, invest it, and generate returns for their beneficiaries. MFA advocates on behalf of its membership and convenes stakeholders to address global regulatory, operational, and business issues. MFA has more than 180 fund manager members, including traditional hedge funds, private credit funds, and hybrid funds, that employ a diverse set of investment strategies. Member firms help pension plans, university endowments, charitable foundations, and other institutional investors diversify their investments, manage risk, and generate attractive returns throughout the economic cycle.

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

FIA PTG - FIA PTG is an association of firms, many of whom are broker-dealers, who trade their own capital on exchanges in futures, options and equities markets worldwide. FIA PTG members engage in manual, automated and hybrid methods of trading, and they are active in a wide variety of asset classes, including equities, fixed income, foreign exchange and commodities. FIA PTG member firms serve as a critical source of liquidity, allowing those who use the markets, including individual investors, to manage their risks and invest effectively. The presence of competitive professional traders contributing to price discovery and the provision of liquidity is a hallmark of well-functioning markets. FIA PTG advocates for open access to markets, transparency and datadriven policy.

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

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

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

Appendix C:

Revisiting US Treasury Market Capacity and Resiliency: Part I

Type: Pennsylvania + Wall
Date: December 14, 2023
By: Peter Ryan
Issue: Treasury Market Structure, Prudential Regulation

The Impact of Rising Debt Levels and Constrained Dealer Capacity on Market Resiliency

- In this two-part blog series, we reexamine long-standing concerns about the capacity and resiliency of the U.S. Treasury market as government bond markets globally contend with rising yields, significant increases in issuance and renewed volatility. We also discuss the wide-ranging impacts that recent regulatory proposals, in particular the Basel III Endgame proposal, could have on these markets.
- In Part I, we examine how the rapid growth in U.S. government debt issuance and constrained dealer balance sheet capacity arising from bank capital requirements have combined to raise questions about the resiliency of the Treasury markets. Serious market disruption events, such as the 2020 "Dash for Cash" episode, as well as the growing risk premia that investors are demanding for holding Treasury securities, appear to support concerns about reduced market capacity and illiquidity during periods of stress.
- Given that Treasury debt issuance seems likely to continue to rise, policymakers have been actively exploring other ways to improve market resiliency. Unfortunately, regulators have not addressed the core problem of constrained dealer balance sheet capacity. In fact, recent regulatory proposals, most notably the Fundamental Review of the Trading Book ("FRTB") and other trading book capital reforms contained in the Basel III Endgame proposal, would serve to further constrain dealer capacity, raise transaction costs, and potentially disrupt key parts of the market.

Background: Why are the U.S. Treasury markets important and how are they structured?

U.S. Treasuries are debt instruments issued by the U.S. government to finance its activities. Owing to the United States' creditworthiness and status as the world's leading economy, the U.S. Treasury market (comprised of the cash market as well as the repurchase agreement ("repo") and futures markets) has been described as the "biggest, deepest and most essential bond market on the planet,"[1] a fact that has allowed the U.S. government to finance its needs at a relatively low cost over time. Investors have historically viewed Treasuries as risk-free or near-cash assets i.e., safe haven assets that retain their value and can be easily sold during both normal and stressed market periods. Owing to their stability, U.S. Treasuries also often serve as benchmarks for other fixedincome securities and hedging positions; as a result, U.S. Treasury yields have an impact on the rates that consumers, businesses, and governments across the globe pay to borrow money. Moreover, the U.S. Treasury repo market is a key transmission mechanism for U.S. monetary policy, and is vital to the liquidity of the cash Treasury market. Put simply, the Treasury markets are the bedrock of the global financial system.

The Treasury markets operate through a dealer-based structure, with "primary dealers" – banks and broker-dealers that have been designated as counterparties of the Federal Reserve Bank of New York ("FRBNY") –acting as the largest buyers in auctions of new Treasury debt and as marketmakers or intermediaries in the secondary markets.[2] In addition to their obligations to participate in all auctions of U.S. government debt, primary dealers are required to "[d]emonstrate a substantial presence as a market-maker that provides two-way liquidity in [the Treasury market], particularly Treasury cash and repo operations." The obligation to support market liquidity extends not only to "on-the-run" securities (the most recently issued securities) but also to less liquid "offthe-run" securities that trade in the secondary markets.

In meeting these obligations, and in attempting to satisfy market and client demands, primary dealers are frequently required to commit a significant amount of capital. Principal trading activity in the "when-issued" market (i.e., securities that have been announced but have yet to be issued), during auctions, in the aftermarket of auctions, and in the secondary market requires these dealers to hedge their positions with other Treasury-backed products. By contrast, other market participants are not similarly bound by the market-making obligations that put primary dealers in the position of providing both buy and sell quotes on a more-or-less continuous basis. The ability of primary dealers to engage in this market-making activity supports the liquidity and overall functioning of all segments of the Treasury markets.

Why are there growing concerns about the capacity and resiliency of the Treasury markets?

As we discussed in a prior SIFMA blog, the resiliency of the Treasury markets has been called into question by a series of major market disruption events over the past decade, most notably the March-April 2020 “Dash for Cash” episode, in which market price volatility increased dramatically and/or where the depth of the market (i.e., the amount of liquidity available) decreased precipitously. While this type of disruption has not occurred since, the Treasury markets have continued to witness episodes of high volatility and trading volumes. As the Inter-Agency Working Group for Treasury Market Surveillance (“IAWG”) noted, Treasury market “volatility reached levels not seen since the 2008 Global Financial Crisis” in mid-March 2023 as difficulties in the regional bank sector led to a repricing of term risk-free rates, while daily, dealer-to-customer, and interdealer volumes all neared historic highs.[3]

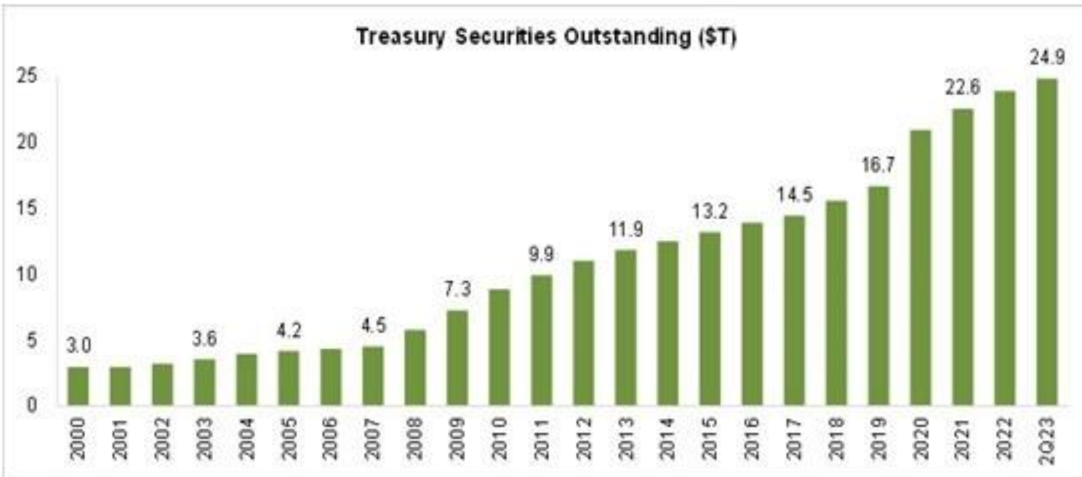
These market events and trends highlight two structural problems in U.S. Treasury markets: the growth of Treasury issuance as the U.S. government continues to borrow more, and the constrained ability of bank dealers to intermediate these markets. These problems are contributing to growing volatility and episodes of illiquidity, increasing costs for investors, and ultimately potentially contributing to higher borrowing costs for the U.S. government over the longer term. Although policymakers have taken some actions and issued proposals designed to improve market resiliency, these twin dynamics of ever-growing supply and constrained intermediation capacity are only likely to get worse in the coming years, particularly if recent banking agency proposals implementing the Basel III Endgame capital reforms, as well as changes to the way the Global Systemically Important Bank (“GSIB”) Surcharge is calculated, go into effect.
These potential impacts will be discussed in Part II of this blog.

Growth of U.S. Government Debt

The dramatic growth in U.S. government debt over the past 15 years has represented a major structural change to the Treasury markets. Outstanding marketable Treasury securities stood at $25 trillion as of August 2023, which represents a 743% increase since 2000 (see Figure 1 below).

Moreover, as federal budget deficits continue to rise, the average rate of Treasury borrowing is accelerating; excluding 2020 (when pandemic-related programs dramatically pushed up borrowing levels), the 2021/2022 average was 56% higher than it had been during the prior decade ($1.5tn versus $1tn in the 2010-2019 period). In 2023, borrowing levels are expected to be 200% greater than the 2010-2019 average, with the amount of new marketable Treasury debt likely to be issued exceeding $3tn.[4] These trends are likely to continue, with the U.S. Congressional Budget Office (“CBO”) estimating that the total amount of Treasury securities outstanding will rise from 98% of U.S. GDP in 2023 to 107%

in 2029.[5] In sum, the Treasury securities market has grown massively in a relatively short period of time and is likely to continue growing rapidly over the coming years. **Figure 1: Treasury Securities Outstanding ($TN), 2000-2023**



Source: SIFMA Research

Constraints on Dealer Balance Sheets

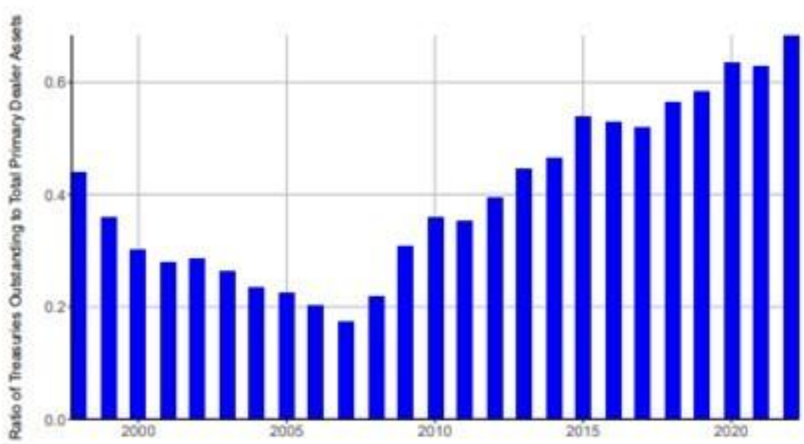
This growth in the size of the Treasury markets has coincided with a second structural change: dealer balance sheets have become increasingly constrained since the enactment of capital reforms in the wake of the Great Financial Crisis ("GFC") of 2007-2008. The constraints on bank dealers' ability to intermediate in these markets are a function of three post-GFC reforms.

First has been the implementation of the Supplementary Leverage Ratio ("SLR") and the "enhanced SLR" ("eSLR") for U.S. GSIBs. The SLR and eSLR create economic disincentives for bank dealers to hold low-returning assets such as U.S. Treasuries by assigning them an equal risk-weighting with far riskier and higher-returning assets (in contrast to risk-based capital requirements, which assign U.S. Treasuries a zero risk-weight).[6] This difference in treatment can turn these leverage measures into binding constraints for some large dealer banks, placing constraints on bank dealers' capacity to intermediate in the Treasury markets. Indeed, commentators with diverse perspectives on capital regulation agree that the SLR and eSLR have placed constraints on the ability of bank dealers to perform market-making activity in the Treasury markets, particularly during periods of stress.[7] Recognizing this, the U.S. banking agencies decided to temporarily exclude Treasuries (and central bank reserves) from the SLR and eSLR calculation as part of their response to the pandemic-induced stresses witnessed in the March-April 2020 Dash-for-Cash episode.

The GSIB Surcharge, specifically the Federal Reserve's preferred methodology for calculating the Surcharge, known as "Method 2" (as opposed to the "Method 1" approach under the internationally agreed Basel framework), has likely acted as a second constraint. Under this approach, Treasuries and Treasury repos are captured by multiple systemic indicator scores used to calculate the Surcharge[8], which can lead to double or triple counting of Treasury assets and liabilities – a feature of the Surcharge that former Federal Reserve Governor Daniel Tarullo has acknowledged exists (though he contends that it is an intentional element rather than a "bug" of the metric).[9] Moreover, the coefficients used to calculate the Method 2 Surcharge are set at a 2012-2013 baseline i.e., they are not adjusted for economic growth.[10] Banks subject to the GSIB Surcharge therefore are likely to have a reduced incentive to grow their balance sheet with low-returning assets such as Treasuries beyond what is required under regulatory requirements such as the Liquidity Coverage Ratio ("LCR"), given that the result will inevitably be a higher capital penalty over time.[11] As discussed in Part II of this blog, recently proposed changes to the GSIB Surcharge methodology may only compound this negative impact on Treasury dealer capacity.

Third, higher post-GFC capital requirements (including risk-based requirements) have generally constrained the growth in the size of dealer balance sheets, meaning that bank dealers have relatively less capacity than they once did to intermediate the growing inventories of U.S. Treasuries. Indeed, as Darrell Duffie notes in a recent paper, since 2007, the combined size of primary dealers' balance has shrunk by a factor of four relative to the growth in U.S. Treasuries outstanding (see Figure 2 below).

Figure 2: Ratio of U.S. Treasuries Outstanding to Primary Dealer Assets, 1998-2022



Source: Duffie (2023)

There is strong evidence that this constrained balance sheet capacity relative to the growing size of the market has exacerbated illiquidity during stress events such as the March-April 2020 Dash for Cash. During that episode, bank dealers purchased large volumes of Treasuries that other market participants, such as funds, proprietary trading firms ("PTFs"), institutional investors, and foreign governments, were looking to sell, but their capacity to do so was nonetheless significantly constrained relative to the demand. Other actors that provided liquidity during normal periods, such as PTFs, withdrew from the market altogether, because they did not have the same incentives to make markets on behalf of clients as the primary dealers. As a Federal Reserve Bank of New York staff report shows, various measures of market liquidity (e.g., the bid-ask spread, depth from the interdealer market and the dealer-to-customer market) declined rapidly[13], leading to an effective freeze-up of the markets until the U.S. Treasury and Federal Reserve began a series of interventions in the markets to restore stability.[14]

Consequences of Reduced Capacity and Resiliency

All of this raises significant financial stability concerns given the central role of the U.S. Treasury markets in the global financial system. It could also have long-term consequences for the cost of financing the U.S. government's debt. For U.S. Treasuries to maintain their global safe-haven status for investors, it is crucial that the markets have intermediation capacities that are resilient even during periods of crisis-level selling. If investors begin to question their ability to quickly liquidate Treasuries, then the risk premium they charge for holding those instruments is likely to go up.

Indeed, there is some evidence that this is already happening: risk-premium indicators such as credit default swaps ("CDS"), as well as the term premium associated with higher five-year real yields have generally increased beyond what would be expected given the current path of monetary policy.[15] Similarly, the Federal Reserve Bank of New York's gauge of the 10-year premium became positive in late September 2023, after having stayed negative for most of the past 7 years, reflecting not only an expectation that interest rates will stay higher for a longer duration, but investor concerns about growing U.S. budget deficits – and thus greater supplies of outstanding Treasuries that may be more difficult to sell – in the future.[16] Ultimately if investor confidence about long-term capacity and resiliency of the Treasury markets begins to wane, then the risk premia (yields) they will demand to hold those instruments will increase, resulting in elevated costs of servicing an ever-growing volume of government debt obligations.

Conclusion

The capacity and resiliency of the U.S. Treasury market have been called into question in recent years as market disruption events and heightened volatility become more frequent. These events have highlighted two underlying structural problems: a rapid growth in Treasury issuance and the constrained intermediation capacity of dealers owing to bank capital requirements. While regulators can do little to address the growth in issuance, they can take actions that mitigate the negative consequences for financial stability and long-term debt financing by expanding capacity in the system. One way to do this would be to reduce constraints on the ability of bank dealers to intermediate in these markets through measured reforms to both the SLR and GSIB Surcharge, as well as targeted changes to other risk-based capital rules. However, recent actions by regulators, particularly the banking agencies' Basel III Endgame proposal, are likely to do the opposite, further constraining dealer capacity, raising transaction costs, and potentially disrupting key parts of the market. We discuss these potential impacts in Part II of this blog.

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Author

Peter Ryan is Managing Director and Head of International Capital Markets and Strategic Initiatives at SIFMA.

Footnotes

[1] "The Joint Staff Report on the U.S. Treasury Market on October 15, 2014," July 13, 2015. Availableat: Joint_Staff_Report_Treasury_10-15-2014.pdf.

[2] See Federal Reserve Bank of New York, "Primary Dealers." Available athttps://www.newyorkfed.org/markets/primarydealers.html.

[3] Inter-Agency Working Group for Treasury Market Surveillance, "Enhancing the Resilience of theU.S. Treasury Market: 2023 Staff Progress Report," November 6, 2023, p.3. Available at: 20231106_IAWG_report.pdf (treasury.gov).

[4] SIFMA U.S. Treasury Securities Statistics. Available at: U.S. Treasury Securities Statistics – SIFMA – U.S. Treasury Securities Statistics – SIFMA.

[5] Congressional Budget Office, "The 2023 Long-Term Budget Outlook," June 2023. Available at:The 2023 Long-Term Budget Outlook | Congressional Budget Office (cbo.gov).

[6] This issue is discussed in more depth in Peter Ryan and Robert Toomey, "Improving Capacityand Resiliency in U.S. Treasury Markets: Part II – Proposals for Reforming U.S. Treasury Markets, March 30, 2021. Available at: Improving Capacity and Resiliency in U.S. Treasury Markets: Part II – SIFMA – Improving Capacity and Resiliency in U.S. Treasury Markets: Part II – SIFMA.

[7] See, for example, Nellie Liang and Pat Parkinson, "Enhancing Liquidity of the U.S. Treasury Market Under Stress," Hutchins Center Working Paper #72, Brookings Institution, December 16, 2020. Available at: WP72_Liang-Parkinson.pdf (brookings.edu). The need for potential reform (albeit more

modest than excluding Treasuries from the SLR altogether) has also been acknowledged by former Federal Reserve Governor Dan Tarullo, who one of the principal architects of the post-GFC prudential reforms. See Daniel Tarullo, “Capital Regulation and the Treasury Market, Hutchins Center on Fiscal and Monetary Policy, Brookings Institution, March 2023. Available at: BrookingsTarullo-Capital-Regulation-and-Treasuries_3.17.23.pdf.

[8] Those components of the systemic indicator scores include the size; complexity; and relianceon weighted short-term wholesale funding; and cross-border transactions.

[9] Daniel K. Tarullo, “Capital Regulation an the Treasury Market,” Hutchins Center on Fiscal andMonetary Policy at Brookings, March 2023, p. 8. Available at: Brookings-Tarullo-Capital-Regulationand-Treasuries_3.17.23.pdf. Note

[10] For more on this issue, see Francisco Covas and Brett Waxman, “GSIB Method 2 Fixed Coefficients Must be Adjusted for Economic Growth,” December 4, 2020. Available at: GSIB Method 2 Fixed Coefficients Must Be Adjusted for Economic Growth – Bank Policy Institute (bpi.com).

[11] This point is at least partially conceded by former Federal Reserve Governor Tarullo in his 2023article. He notes that while “it is hard to know just how much bank holdings and intermediation of Treasuries would increase were the G-SIB surcharge to be reduced” that “nonetheless, there is surely something to the claim, especially if surcharges were to continue to rise based on balance sheet growth that roughly parallels economic growth (and thus, at least presumptively, does not necessarily increase in the systemic risk posed by that institution).” See Tarullo, p. 9.

[12] Chart adapted from Darrell Duffie, “Resilience Redux in the U.S. Treasury Market,” paperpresented at the Jackson Hole Symposium, August 25, 2023. Available at: DuffieJH-2023.pdf (darrellduffie.com).

[13] Darrell Duffie, Michael Fleming, Frank Keane, Claire Nelson, Or Shachar, and Peter Van Tassal,“Dealer Capacity and U.S. Treasury Market Functionality,” *Federal Reserve Bank of New York Staff Report*, No. 1070, August 14, 2023. Available at: delivery.php (ssrn.com).

[14] For more on this episode, see Peter Ryan and Robert Toomey, “Improving Capacity and Resiliency in U.S. Treasury Markets: Part 1 – Why is Reform Needed? A Brief History of Recent Market Disruptions,” March 24, 2021. Available at: Improving Capacity and Resiliency in U.S.

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[15] Steven Major, Himanshu Malik, and Guy Baverstock, "Bonds Are Not Potatoes 2: Revising theImpact of Supply on Yields," HSBC Global Research, September 27, 2023.

[16] Michael Mackenzie and Garfield Reynolds, "Treasury 'Term Premium' Guage Positive for theFirst Time Since 2021," Bloomberg, September 27, 2023.