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Will Central Clearing Change the Market Structure of U.S. Treasury Repo to Become More Standardized and Trade on an All-to-All Basis?

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Central Clearing | All-to-All Trading | Term Repo | SEC Mandate | FICC/GSD

Executive Summary

01 Regulatory Catalyst

The SEC's Dec 13 2023 rule mandates central clearing of U.S. Treasury repo trades through a covered clearing agency by June 30, 2027, targeting systemic-risk reduction.

02 Current Market Size & Structure

U.S. repo averaged $12.6 Trillion in Q3 2025. ~65% remains uncleared — dominated by bilateral dealer-intermediated activity ($5.0 T/day), and triparty ($3.1 T).

03 Central Clearing as Enabler

CCPs helps mitigate bilateral credit constraints, enabling 'done-away' trading and netting benefits. Post-mandate, ~84% of all repos (Finadium) and ~98% of private-sector repos are expected to clear (IMF).

04 Conditions for All-to-All

All-to-all repo requires more than clearing alone: standardized term expirations, uniform collateral schedules, consolidated order flow, and interoperable or linked CCPs must all align.

Core Question: Can the clearing mandate alone transform U.S. Treasury repo into a truly standardized, all-to-all market — and if not, what additional structural changes are needed?

Agenda

1. **All-to-All Trading: Definition & Significance**
   What it is, why it matters, and how anonymity and competition drive market efficiency
2. **U.S. Repo Market Today**
   Market size ($12.6 T/day), participant structure, bilateral vs. triparty segments, and why clearing remains low
3. **Central Clearing Mechanics & FICC/GSD**
   How CCPs mitigate counterparty risk, netting benefits, and the evolution of client clearing access models
4. **Lessons from Exchange-Traded & OTC Markets**
   Treasury futures, equities, options — and why OTC IRS post-Dodd-Frank did NOT achieve all-to-all
5. **Path to All-to-All Repo**
   Standardized terms, uniform collateral schedules, aggregated order flow, and CCP interoperability requirements
6. **Standardized Term Repo: Benefits & Trade-Offs**
   Reduced rollover risk, capital incentives, procyclicality concerns, and leveraged-fund preferences
7. **Implementation Timeline & Policy Takeaways**
   SEC mandate milestones, remaining structural gaps, and implications for financial stability

1 — What is All-to-All Trading?

Definition

A market structure where ALL qualified participants can trade directly with each other — bypassing traditional dealer intermediation — typically facilitated via Central Limit Order Books (CLOBs) and central counterparties (CCPs).

Why dealers dominate today:

- Relationships bundle financing, risk mgmt & trading — optimizing execution cost is secondary
- Bespoke size, maturity or package trades require dealer structuring
- Credit-worthiness constraints — uncleared trades require bilateral credit assessment

Increased Liquidity

More participants → tighter bid-ask spreads, efficient price discovery

Broader Access

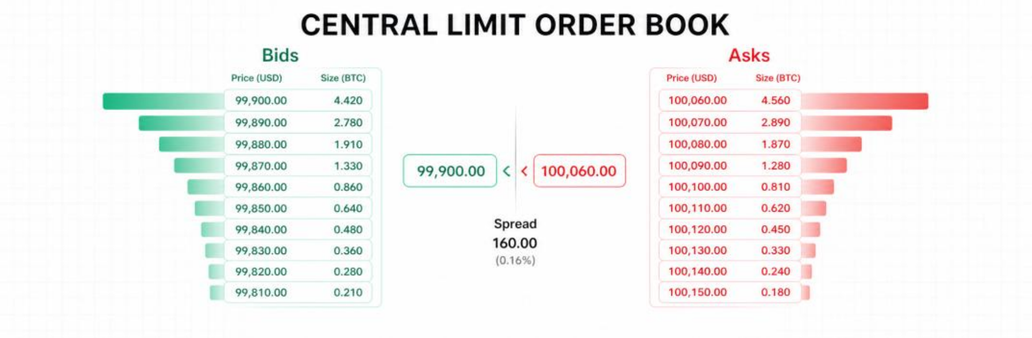
Smaller firms access market directly; inclusive environment

Greater Transparency

Full pre-trade depth, volume & pricing visible to all

Anonymity

Masks identity, timing & strategy — prevents front-running & spoofing



2 — U.S. Repo Market Today

Market Participants & Transaction Flow

Cash Borrower
e.g. Hedge Fund

Dealer
Intermediary

Cash Lender
e.g. MMF

← cash / securities →

Bilateral Repo

Direct exchange of cash & securities between counterparties. Most of the $5.0 T/day non-centrally cleared segment.

Triparty Repo

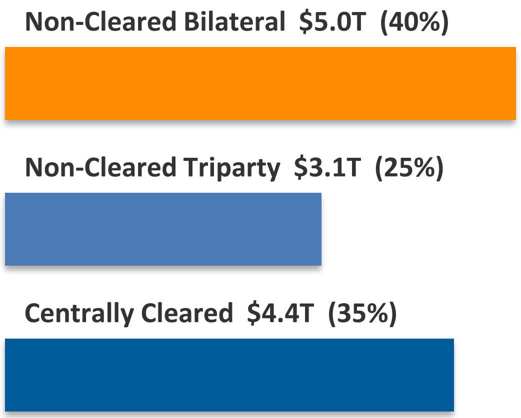
Third-party agent (BNY Mellon — sole U.S. triparty agent) administers & settles. $3.1 T/day non-cleared triparty.

- ~80–90% of non-cleared bilateral repo references U.S. Treasuries
- Overnight tenor dominates — trades mature next business day
- Term repos (days to months) and open-ended repos also transact
- Market remains largely bilateral, uncleared, dealer-intermediated

U.S. Repo Market Size — Q3 2025 Daily Averages (Source: OFR, Dec 4 2025)

$12.6 Trillion

Total Daily Exposures



~65% of the market is NOT centrally cleared

- Post-mandate: ~84% of all repos expected to clear (98% private-sector)
- FICC/GSD currently clears ~35% — sole authorized CCA until recently

3 — Central Clearing for Repos

Benefits of centrally clearing repo trades

- Guarantee trade performance — participants transact independent of counterparty credit
- Multilateral netting reduces bilateral exposure, freeing bank balance sheet capacity
- Enables 'done-away' trading — unbundling of trade execution and clearing with the same entity
- Cross-margining –lower collateral required at the portfolio level (e.g., Treasury Futures & Treasury repo)

Table 1 — Risk Profile: Cleared vs. Uncleared Repo (assumes client segregation & porting)

Risk Type	Uncleared Overnight	Uncleared Term	Cleared Overnight	Cleared Term
Credit Risk	Minimal	Moderate–High (tenor & counterparty)	Minimal	Minimal
Market Risk	1-day MTM exposure only	Increases with longer maturity	Minimal	Increases with maturity
Liquidity / Funding Risk	High rollover risk in stress	Lower (if cpty doesn't default)	High rollover risk in stress	Lower rollover risk

✓ **Funding/liquidity risk improvements most significant for term repos**

✓ **Clearing can improve mitigation of credit risk for term repo**

3 — Current Clearing Arrangements: FICC / GSD

1982	1986	2008–09	2010	Dec 2023	Jun 2026	Jun 2027
Drysdale Default	FICC/GSD Established	Global Financial Crisis	Dodd-Frank Act	SEC Rule Adopted	Cash Tsy Deadline	Repo Deadline

Pre-mandate Clearing

- Incumbent CCA for U.S. Treasury & repo clearing if FICC (subsidiary of DTCC)
- Currently clears ~35% of repo transactions
- Historically only cleared member trades

Structural Changes

- Multiple CCAs now authorized: FICC/GSD, ICE Clear Credit, CME Securities Clearing
- New client clearing models (e.g., Sponsored Access, Agent Clearing Service)
- Done-away trading becomes technically feasible

Remaining Challenges

- Multi-CCP structure risks market fragmentation
- Pre-trade controls must aggregate across platforms in near real time
- Client onboarding still developing

4 — Benchmarks: Exchange-Traded vs. OTC vs. Repo

Table 2 — Market Structure Comparison (Exchange-Traded, OTC IRS, and U.S. Treasury Repo)

Feature	Equities / ETFs	Options on Securities	Treasury Futures	USD OTC IRS (pre-DFA)	USD OTC IRS (current)	Treasury Repo (current)	Treasury Repo (post-mandate)
Standardized Contract Terms	✓ Yes	✓ Yes	✓ Yes	~ Moderate	✓ Mostly	✗ No	✓ Yes (but collateral schedules may custom)
All-to-All Trading	✓ Yes	✓ Yes	✓ Yes	✗ No	Nil–Minimal	✗ No	◎ Possible
Single CCP Clearing	NSCC	OCC	CME	<50% LCH	~80% LCH/CME	~45% FICC	–84% multi-CCP
Done-Away Supported	✓ Yes	✓ Yes	✓ Yes	✗ No	✓ Yes	✗ No	◎ Expected
Standardized Expirations	T+1	Monthly+	Quarterly+	Up to 30yr	Up to 50yr	Overnight only	Overnight + Term possible

Key Lesson: OTC IRS post-Dodd-Frank achieved ~80% clearing and electronic SEF trading — but NOT all-to-all. Fragmentation across multiple SEFs and CCPs ('CCP Basis') prevented full consolidation. Repo must learn from this: aggregation and standardization are prerequisites, not by-products, of clearing.

5 — Path to All-to-All Repo: What Still Needs to Change

STEP 1 — Already Underway

Central clearing mandate (SEC, Jun 2027)

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STEP 2 — Needed: Contract Standardization for Collateral and Expirations

Standardize term repo expiration dates (concentrate liquidity in benchmark tenors) modeled on IRS or Treasury futures. Develop uniform collateral schedules using Treasuries with conversion factors — similar to CME Treasury futures contract design or TBA market for agency MBS.

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STEP 3 — Needed: Execution Aggregation

Aggregate pre-trade order flow across platforms with near-zero latency — via single CLOB (like Treasury futures on Globex) or multi-venue with unified pre-trade controls (like equities via NSCC).

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STEP 4 — Needed: CCP Links or Interoperability

With multiple CCPs (FICC/GSD, CME, ICE Clear) entering the market, clearing links or interoperability arrangements are required to prevent fragmentation and the emergence of a 'Repo CCP Basis'. Precedent exists: CME-FICC cross-margining already links Treasury futures and cash/repo clearing.

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RESULT: All-to-All Term Repo Market

If achieved: enhanced liquidity, tighter spreads, reduced rollover risk, lower bank capital (BIS), and improved U.S. Treasury primary and secondary market functioning.

6 — Standardized Term Repo on an all-to-all basis: Benefits & Considerations

Benefits of Standardized Term Repo

Reduced Rollover Risk

Participants avoid daily re-financing risk of overnight repos. Multiple-day maturities provide time to manage stress — critical during events like the 2022 UK Gilt crisis.

Supports New Market Entrants & Innovation

Standardized specs enable new repo product designs (e.g., when-issued settlement dates), algorithmic execution, and broader institutional access.

Improved U.S. Treasury Market Functioning

Resilience in repo markets reduces friction in broader secondary markets for Treasuries, potentially lowering primary issuance costs for the U.S. government.

Considerations

Procyclicality Risk

Margin requirements can increase sharply during volatility, amplifying stress on market participants at exactly the wrong time — a common critique of clearing mandates generally.

Leveraged Fund Preferences

Hedge funds engaged in Treasury basis trades are major repo borrowers. Their preferences for specific maturities and collateral types may drive standardization considerations.

Transition Friction

Moving from bespoke bilateral terms to standardized contracts requires industry-wide agreement, system upgrades, and operational changes across all participants.

Dec 13 2023	Early 2025	Mar 31 2025	Jun 30 2026	Jun 30 2027	Post 2027
SEC Rule Adopted	Industry Docs (SIFMA)	Cash Tsy (inter-dealer)	Cash Tsy (all participants)	Repo Clearing Mandatory	All-to-All Evolution?

Conclusions

1. Clearing is necessary but not sufficient. The SEC mandate will expand clearing to ~84% of repos — but OTC IRS shows that high clearing rates alone do not produce all-to-all trading.

2. Standardization must accompany clearing. Standardized term expirations, uniform collateral schedules, and consolidated order books are required prerequisites.

3. CCP aggregation may be a critical bottleneck. Multiple CCPs without links risk creating a 'Repo CCP Basis', fragmenting liquidity and undermining price discovery.

4. If achieved, benefits extend broadly: reduced rollover risk, tighter spreads, and lower U.S. government issuance costs.

Appendix — Repo Transaction Mechanics

A repo is economically a collateralized loan treated legally as a sale + agreement to repurchase. Example (illustrative):

Opening Leg (Trade Date)

- Cash borrower (e.g., hedge fund) holds a security worth $100
- Dealer applies 2% haircut (initial margin) → lends $98
- Cash lender (e.g., MMF) provides $98 cash to dealer; dealer passes to borrower
- Borrower agrees to repurchase the security for $98.50 at maturity ($98 + $0.50 repo rate fee)
- Security ($100) flows: Borrower → Dealer → Cash Lender as collateral

Closing Leg (Maturity Date)

- Borrower repays $98.50 (principal $98 + $0.50 fee) to dealer
- Dealer returns $98.50 to cash lender (plus lender's agreed return)
- Security ($100) flows back: Cash Lender → Dealer → Borrower
- Dealer's spread is the repo rate differential (bid-ask) between the two legs
- In cleared repos, CCP novates the trade — eliminates bilateral credit exposure

Key Terminology & Context

Haircut / Initial Margin:	Reduction in collateral valuation to cover potential loss if borrower defaults (e.g., 2% haircut = lend $98 on $100 collateral)
Repo Rate:	Interest rate on the repo transaction; equivalent to the implied cost of the collateralized loan
Overnight vs. Term:	Overnight repos mature next business day; term repos range from days to several months; open repos have no fixed maturity
Done-With vs. Done-Away:	Done-with: execution and clearing at same entity (current norm). Done-away: clearing at a different entity from execution (enabled by mandate)
NCCBR:	Non-Centrally Cleared Bilateral Repo — the largest single segment ($5.0 T/day in Q3 2025), heavily reliant on dealer intermediation