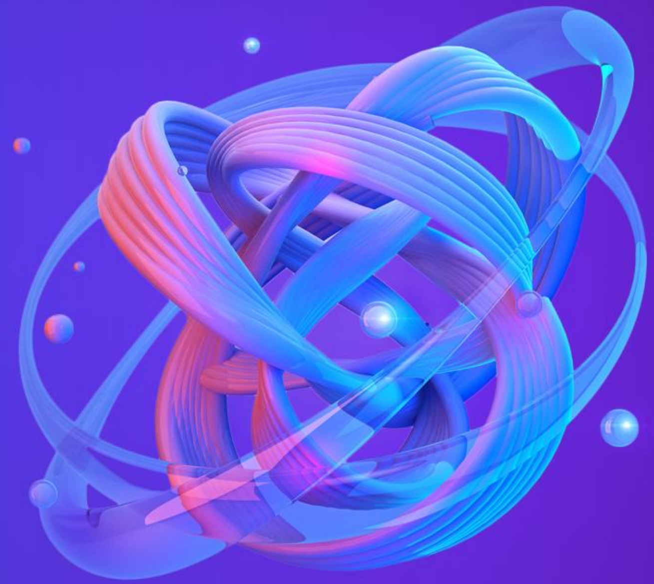
Aim to make the US Treasury market more resilient and competitive



New standards for centralized clearing of US Treasury securities and application of broker-dealer customer protection rule

On December 13, 2023, the Securities and Exchange Commission (SEC) approved rule amendments to enhance risk management and operational efficiency in the US Treasury securities clearing and settlement market[1]

The amendments focus on updating membership standards for covered clearing agencies in the US Treasury market, specifically addressing clearance and settlement practices for designated secondary market transactions. The primary provisions of the amendments are as follows:

Key changes

1 Mandatory clearing for eligible secondary market transactions

Market participants are required to **submit repo and cash transactions collateralized by US Treasury securities for clearing.[2]**

2 Facilitation of access to clearance services

Market participants must ensure **proper access to clearance and settlement services**, including provisions for indirect participants.

3 Amendments to broker-dealer customer protection rule

Rule 15c3-3 (broker-dealer customer protection rule) has been amended to **allow margin required and deposited at a covered clearing agency to be included as a debit item** in the customer reserve formula.

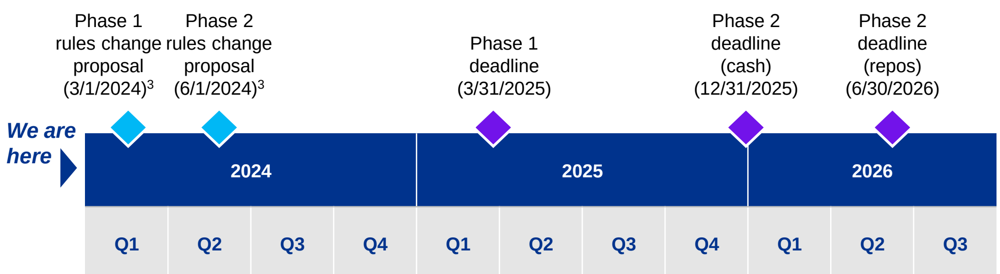
4 Segregation of margin for proprietary transactions

Market participants must implement policies to **calculate, collect, and hold margin separately** for house and customer transactions.

Implementation will occur in two phases:

1. **Separation of house and customer margin, broker-dealer customer protection, and access to central clearing** (deadline of March 31, 2025)
2. **Phased requirement to clear specific transactions** (deadlines of December 31, 2025 and June 30, 2026 for cash and repo transactions, respectively)

By 2026, all in-scope transactions will need to be centrally cleared – market participants need to start addressing the impacts to their internal processes and client/vendors



[1] Source: KPMG US, "US Treasury Securities Clearing Agency Standards: SEC Final Rule" (December 2023)
[2] Exceptions to this rule include transactions involving central banks, sovereign entities, international financial institutions, etc.
[3] Estimated based on Final Rule publish date

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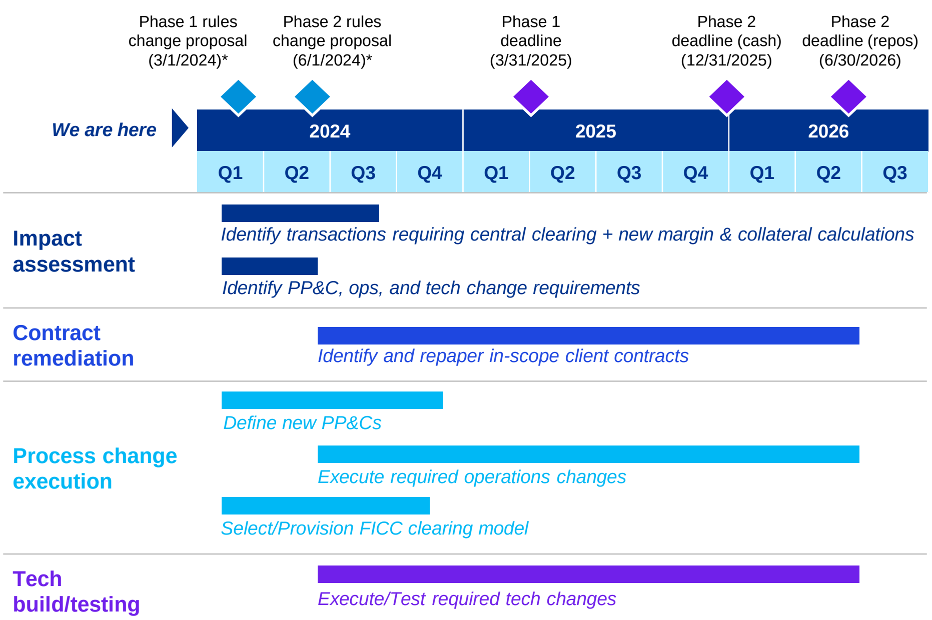
Implications of the change can impact many areas of the organization, as well as external stakeholders

Key challenge	
Identify new margin & collateral calculations	Assess the impact of higher margin and collateral requirements on collateral management processes, margin requirements calculations, and service agreements with Central Counterparty clearing house.
Identify and repaper in-scope client contracts	The increased cost of trading will require a reassessment and renegotiation of client service contracts and drafting of new legal documentation.
Define new Policies, Procedures, and Controls (PP&Cs)	Interpret new rules and revise PP&C to ensure compliance with updated clearing standards.
Assess and execute operations technology changes	Updated clearing standards will require an understanding and remediation of gaps in existing operations processes and technology stack.
Develop methodology to identify transactions requiring central clearing	Conduct evaluation of transactions to determine which ones will be impacted by the rule and will require central clearing.
Manage Fixed Income Clearing Corporation clearing model selection process (by client/trade type)	For eligible transactions, organizations will need to adopt usage of one of FICC's clearing models, to be determined based on FICC membership status, relative costs, etc.

Required actions such as contract revision are effort-intensive and time-consuming organizations should start preparing today



** Estimated based on Final Rule publish date*

How KPMG can help

Automated contract management

AI-driven identification and management of PP&C gaps, as well as contract revision with CCPs and clients, powered by **KPMG Ignite**

Data-driven impact assessment

Scaled identification of PP&C gaps, as well as opportunities for ops cost reduction and process reengineering, powered by **KPMG's process-as-data accelerators**

Collateral & margin requirements management

Calculation and testing of updated collateral and margin requirements, powered by **K-Agile and KPMG's process-as-data accelerators**

Change management

Assessment and management of required changes across people, process, technology, and data

Risk management

Development and execution of a framework for managing legal, operational, liquidity, credit, and other risks

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