KPMG

U.S. Treasury central clearing & settlement

Implementation of the SEC's Final Rule will impact almost every facet of your business

Summary of key changes

On December 13, 2023, the Securities and Exchange Commission (SEC) approved new regulations under the Securities Exchange Act of 1934, revising the standards for covered clearing agencies (CCAs) and requiring centralized clearing of eligible US Treasury (UST) securities transactions. The following is a summary of key requirements for CCAs under the final rule:

- Mandatory clearing for repo and cash transactions collateralized by UST securities for clearing.
- Implement policies to calculate, collect, and hold margin separately for house and customer transactions.
- Rule 15c3-3 (broker-dealer customer protection rule) is amended to allow margin required and deposited at a CCA to be included as a debit in the customer reserve formula.
- Facilitate access to clearing and settlement services, including provisions for indirect participants.

Timelines

By 2027, all in-scope transactions will need to be centrally cleared—market participants are addressing the impacts to their internal processes, clients, and vendors.

Sep 2025 CCAs are required to enforce written policies and procedures regarding Exchange Act Rule 17ad-22(e)(6)(i), to compute, collect, and hold margin amounts separately and independently for direct participants' proprietary positions and direct participants' customer positions.

Dec 2026 All covered cash UST trades must be centrally cleared through Fixed Income Clearing Corporation (FICC), requiring updated trading, settlement, and workflows.

Jun 2027 Covered repo and reverse repo transactions, including those involving hedge funds, must be routed through central clearing mechanisms.

Where your progress should be...

Operations & technology

Questions:

1. Have you conducted a thorough impact assessment to evaluate which clearing strategy is best suited for your business model and a corresponding restructuring/optimization roadmap?
2. Have you evaluated the impact of the clearing changes to the technical architecture, detailing systematic enhancements and build requirements?
3. Have you completed your cost projection model to evaluate the financial impact of implementing your clearing strategy (inclusive of transformation and operating expenses)?

Treasury

Questions:

1. Have you established mechanisms to manage changes in your liquidity positions and evaluate potential fluctuations in collateral requirements, intraday funding needs, and impact to risk management strategies?
2. Have you considered how netting treatment would optimize liquidity management by reducing the gross value impacting stable funding requirements, thus improving balance sheet efficiency?
3. Are your funding strategies and sources flexible enough to adjust to shifting liquidity needs, especially considering stress scenarios and compliance with Federal Reserve's Complex Institution Liquidity Monitoring Report (FR 2052a) reporting requirements?

Regulatory reporting

Questions:

1. Do you maintain a process to separately itemize cash and margin balances of every customer?
2. Have you established a system to determine margin requirements for sponsored counterparties based on a methodology that is appropriate for measuring credit exposure pursuant to your risk parameters?
3. Have you designed and built internal reporting in order to determine and appropriately include debit/credit balances in 15c3-3?

Accounting/Financial reporting

Questions:

1. Have you evaluated the changes in your client contracts to determine the impact of gross versus net recognition for "Done-With" and "Done-Away" flows under US generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS)??
2. How will you model and measure non-contingent and contingent liabilities from credit guarantees on client exposures?
3. Has implementation of the Final Rule created "offline" modeling and accounting processes that need to be documented in policy and financial reporting controls?

Operations and technology | Treasury | Regulatory reporting | Accounting/Financial reporting

What are some of the considerations and implementation challenges our clients are experiencing?

Operations and technology

- Assessing the existing clearing model challenges and developing a strategy for optimization by aligning with a direct (sponsoring) or indirect (sponsored or agent) approach
- Conducting a comprehensive impact assessment to evaluate changes across processes, technology, service level agreements, data, calculations, contracts, and supporting business lines
- Developing a cross-functional tech optimization roadmap, inclusive of build requirements, timelines, and dependencies

Treasury

- Data availability (volumes/values) for transactions that will move to central clearing
- Availability/ability of margin forecasts (based on FICC methodology)
- Dependencies on business decisions on margin mechanics and corresponding accounting treatment
- Integration across systems and geographies for proper trade capture
- Widespread impacts to downstream reporting, models, limits, and indicators
- Impact to capital and margin as result of clearing transactions on behalf of clients

Regulatory reporting

- Tracking margin activity on a client-by-client basis to monitor for any deficiencies that could impact capital and to determine appropriate inclusion of amounts for reserve formula purposes
- Establishing distinct account classifications for suspense and fail accounts for both house and customer activity
- Updating allocation hierarchies and stock record mappings as needed to determine includable and excludable allocation balances.
- Maintaining support for associated credit balances in order to include a debit for margin on deposit with CCAs

Accounting/Financial reporting

- Considering whether you are a principal (grossing up the balance sheet) or an agent (recognizing a fee) may require legal and accounting analyses, especially for nuanced "done-with" scenarios
- Determine how to track and measure guarantee liability for client trades
- Determine the appropriate accounting for margining activities, including recognition and measurement of margin assets and operational choices to advance or collect margin with customers and other clearing organizations

Our observations

Operations and technology

- Firms that have implemented an internal working group have proactively addressed preliminary questions relating to funding, resource allocation, and impact assessment approach.

Treasury

- Central clearing implementation requires significant cooperation between the business and operational groups to develop margin and volumes forecasts, proper account structures, data flows, and business strategy.

Regulatory reporting

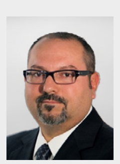
- Industry leading practice involves an initial assessment of current- and future-state activity to determine regulatory impact of the rule change and establishing sponsored and agent clearing models to fit business needs and operational capabilities of the organization.

Accounting/Financial reporting

- US GAAP vesus IFRS: Key differences in accounting principles and liability measurement may prevent a single approach for global firms.
- Firms may need to develop a methodology to measure both the noncontingent and contingent liabilities for any credit guarantees.

Our people

Operations and technology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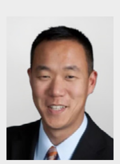
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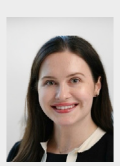
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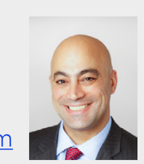
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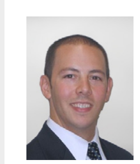
Accounting/Financial reporting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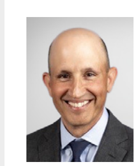
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