

1. Need for Advocacy:

- a) **The rules governing the implementation of mandatory central clearing are left to the interpretation of CCPs**. This has created significant uncertainties in the market. Multiple CCPs, including FICC, CME, and ICE, may interpret and apply these rules differently, complicating compliance and increasing costs. Additionally, cross-margining across CCPs is not currently permitted.
 - b) Interviewee banks have expressed concerns that the extraterritorial scope of FICC's proposed rule is overly broad, **extending even to transactions between their foreign branches and foreign counterparties with no U.S. nexus**. Two interviewees noted that although FICC's "Trade Submission Proposal" (in which proposed rule changes were filed) was withdrawn in February of this year, no official announcement has been made regarding the latest status of the extraterritorial scope's applicability. This has left significant uncertainty in the market.
 - c) Regarding the extraterritorial scope, interviewee banks recognise that there is little value in advocating to FICC/DTCC due to conflict of interest. Instead, advocacy efforts should target the SEC, with the involvement of SIFMA likely to be potentially beneficial.
 - d) In parallel, it will be crucial to draw the attention of Asian financial regulators to the extraterritorial impacts, enabling further coordination at a higher national level.
2. Asian banks that are not direct FICC members are seeking access to clearing largely through **either a sponsored repo model or an agency model**. One bank noted the difficulties in applying for direct membership due to certain regional eligibility criteria.
 3. In a scenario presented by one interviewee, Asian banks' access routes to U.S. central clearing can be heavily constrained. Assuming a Malaysian bank wants to get access to UST central clearing, since Malaysia is not an approved jurisdiction by FICC for sponsored members, the sponsored repo route is very much closed. Agent clearing can also be expensive under new capital requirements.
 4. Banks utilising the sponsored repo models are required to sign new sponsored repo annexes, which creates a potential demand for ***a standardised sponsored repo annex under the GMRA for industry-wide use***.
 5. Challenges relating to the implementation of U.S. mandatory central clearing include:
 - a) ***Limited operating hours***: FICC currently does not operate on a 24-hour basis, which restricts sponsor firm's ability to support sponsored member clearing cross global time zones.
 - b) ***Increased costs from CCP margin and capital requirements***: Cleared trades incur higher, non-negotiable haircuts and initial margin requirements compared to bilateral

trades, along with more stringent capital requirements for sponsor firms facilitating access.

- c) ***Shift in credit exposure:*** Credit risk shifts from the original counterparty to the agent/sponsor and ultimately to the CCP (e.g., FICC).
 - d) ***Concentration risk:*** The limited number of clearing brokers (e.g., BNY Mellon, State Street, and J.P. Morgan) could pose a concentration risk within the U.S. Treasury clearing ecosystem.
 - e) ***Jurisdictional constraints:*** FICC does not have local clearing licenses in every jurisdiction as a CCP (e.g., in New Zealand).
 - f) ***Operational burden for counterparty monitoring:*** Firms must continuously monitor whether their trading counterparties become FICC members, as this changes the clearing obligation status of their trades. They may also face increased effort in establishing new trading relationships to avoid scope.
6. Potential market implications foreseen by the market participants:
- a) Bifurcation of markets (cleared vs uncleared), leading to pricing discrepancies, fragmented liquidity and potential regulatory arbitrage.