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ADVANCED TOPICS IN

HEDGE FUND PRACTICES

CONFERENCE

MANAGER AND INVESTOR PERSPECTIVES

NEW YORK

June 10, 2025

CFTC and Derivatives Developments

Speakers



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Derivative Structures

TRS

Structured Repo

Crypto

Cleared Repo

US Treasury Clearing Rule

On December 13, 2023, the SEC adopted Treasury Clearing Rules designed to improve risk management in clearance and settlement and to facilitate additional central clearing for the US treasury market.

It also adopted amendments to Rule 15c3-3 under the Securities Exchange Act of 1934 (the Customer Protection Rule) regarding margin held at covered clearing agencies for US Treasury securities.

The Treasury Clearing Rules will:

- require the Fixed Income Clearing Corporation (FICC), which is currently the only covered clearing agency for US Treasury securities, and any future central clearing counterparty (a CCP), such as CMESCC or ICE, to have policies and procedures requiring its direct participants to submit for clearing certain eligible secondary market transactions (ESMTs);
- require that CCPs have policies and procedures in place to calculate, collect, and hold margin for its direct participants' proprietary transactions separately from transactions submitted on behalf of indirect participants;
- require CCPs to have policies and procedures to ensure that they have appropriate means in place to facilitate access to clearance and settlement services for all ESMTs, including those entered into by indirect participants; and
- amend the Customer Protection Rule to permit margin required and on deposit at FICC to be included as a debit item in the customer reserve formula, subject to certain conditions.

US Treasury Clearing Rule

Under the Treasury Clearing Rule, ESMTs would include the following:

- ✓ All repurchase and reverse repurchase agreements collateralized by US Treasury securities to which a direct participant is a counterparty
- ✓ All purchase and sale transactions of US Treasury securities (cash transactions) for direct participants who are acting as interdealer brokers
- ✓ All cash transactions between a direct participant and any of a registered broker-dealer or a government securities dealer or broker
- ✓ Exemptions where a counterparty is a central bank, a sovereign entity, an international financial institution, or a natural person are excluded from the rule; repurchase and reverse repurchase agreements in which one counterparty is a state or local government or between a direct participant and an affiliated counterparty are also exempted under certain conditions

Overview and Key Dates

FICC AND OTHER CCPs

- Rules for separation of house and customer margin, access to clearance and settlement services, and the Customer Protection Rule:
 - Proposal by no later than 60 days following the Treasury Clearing Rule's publication in the Federal Register
 - Effectiveness by **September 30, 2025**
- Rules for requirements to clear ESMTs and to monitor submission of those ESMTs:
 - Effectiveness by **December 31, 2026** (for cash transactions) and **June 30, 2027** (for repos)

Direct Participants

Direct participants are required to clear cash transactions by **December 31, 2026**, and clear repos by **June 30, 2027**



What's Next

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What's Next – Negotiation of Documentation

Education on the
CCP's offerings

Decision on a
bilateral or tri-party
starting point

What happens if
there is a failure?

Scope of indemnities
and limitation
of liability,
covenants, and
termination rights

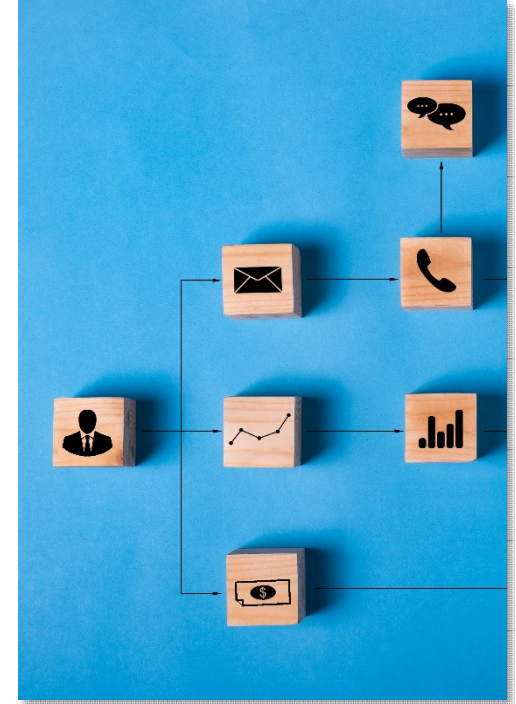
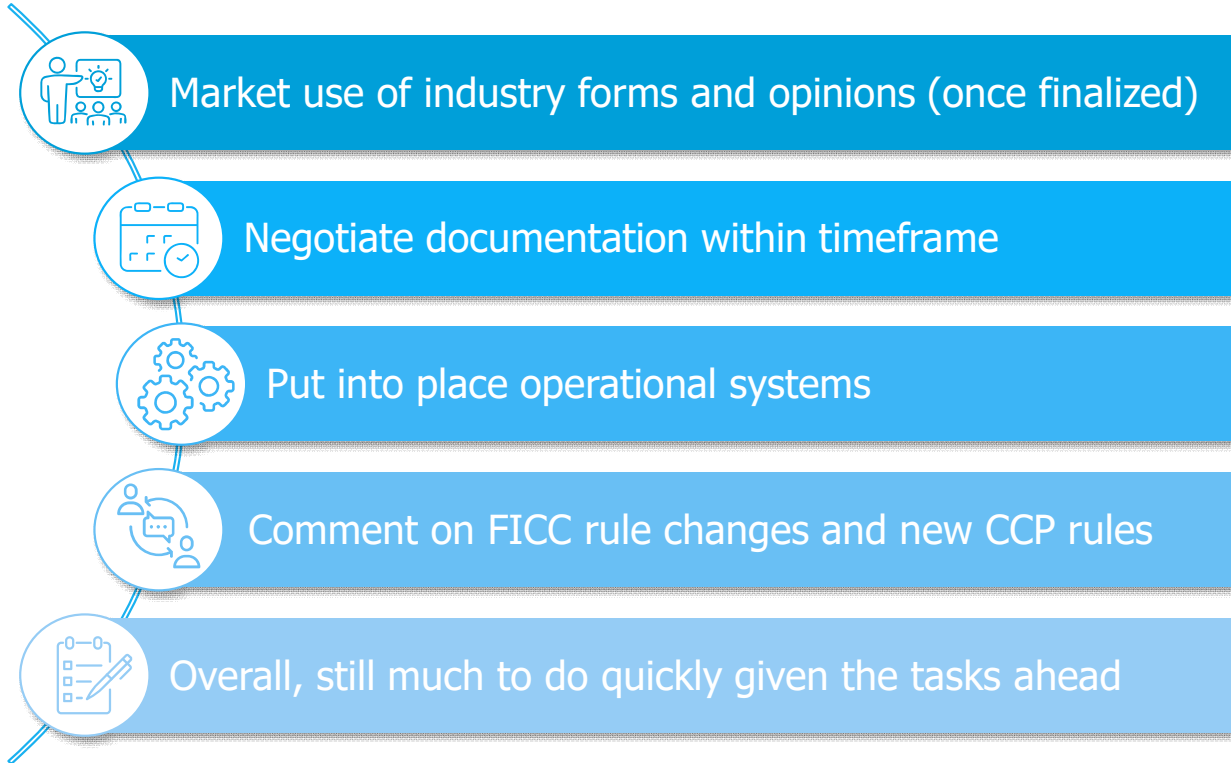
What happens if
there is a customer,
the CCP, or the
clearing member
default?

Scope of security
interest grant

Margining timelines

UCC financing
statements and
searches

What's Next



Crypto: Always Trading

- Coinbase Derivatives is already 24/7
- Spot crypto markets have always traded 24/7
- Need for risk management at all hours

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TradFi: Many Concerns



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- The banks, Fed resources do not operate 24/7
- Less liquidity on the weekends
- Market participants need more staff and/or foreign offices
- Operational concerns

Agriculture & Other Physicals: Strongly Opposed

- Cash markets have limited hours
- Need to prefund margin
- Opposition to auto liquidation
- Costs passed onto consumers and end-users



Broad Agreement



- What is good for crypto may be bad for other markets
- Stablecoins—maybe?

Can the Systems Coexist?

- Nonparticipants exposed to others' losses
- Competition issues

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Regulatory Challenges

