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December 27, 2022

Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, D.C. 20549-1090

Re: Proposed Rules Regarding Standards for Covered Clearing Agencies for U.S. Treasury Securities and Application of the Broker-Dealer Customer Protection Rule With Respect to U.S. Treasury Securities, Release No. 34-95763; File No. S7-23-22; 87 Fed. Reg. 64610

Dear Ms. Countryman:

Tradeweb Markets Inc. ("**Tradeweb**") appreciates this opportunity to provide the Securities and Exchange Commission (the "**Commission**") with comments in response to the above-captioned release (the "**Proposal**"). The Proposal would, among other things, (i) expand central clearing of U.S. Treasury securities transactions through a broad central clearing mandate and (ii) to support the mandate, require the Fixed Income Clearing Corporation ("**FICC**")—the only clearing agency for U.S. Treasury securities transactions—to adopt measures intended to facilitate clearing of such transactions.

Tradeweb is a leading global operator of electronic marketplaces for rates, credit, equities and money markets. Founded in 1996, Tradeweb provides access to markets, data and analytics, electronic trading, straight-through-processing and reporting for more than 40 products to clients in the institutional, wholesale and retail markets. Advanced technologies developed by Tradeweb enhance price discovery, order execution and trade workflows while allowing for greater scale and helping to reduce risks in client trading operations. Tradeweb has been a pioneer in electronic marketplaces for U.S. Treasury securities in particular, including the introduction of a request-for-quote trading protocol for such securities in 1998.[1]

[1] *See* Tradeweb, *Government Bonds*, *available at* https://www.tradeweb.com/our-markets/institutional/rates/government-bonds/.

As a leader in providing U.S. Treasury securities trading markets, and given our deep experience with respect to central clearing of other instruments,[2] Tradeweb is uniquely positioned to provide valuable perspective on the Proposal. While we agree with the Commission that central clearing can result in considerable benefits to markets and market participants, we believe that those benefits—including credit risk mitigation, the promotion of multilateral trading venues, and the potential for greater market capacity, particularly in the repurchase and reverse repurchase ("**repo**") market—can only be realized if any clearing mandate is implemented in a thoughtful way to maximize those benefits while also minimizing costs, which themselves may introduce potential undesired impediments to market participation.

I. Mitigating Credit Risk

A principal benefit of central clearing is risk mitigation, including counterparty credit risk in particular. In the context of a bilaterally settled trade, each counterparty remains subject to the credit risk of the other during the life of the transaction. Central clearing mitigates this risk by having a central counterparty (that has in place policies, procedures and other safeguards to minimize the possibility of its own default) act as buyer to every seller and seller to every buyer, thereby essentially eliminating the bilateral credit risk as between the two original counterparties and mitigating overall risk in the market. The Commission has noted this benefit as a primary reason for the Proposal[3] and other regulators and market participants have as well.[4]

Because most market participants are not direct participants of FICC (and, therefore, can only access the clearing agency through another market participant that is a direct participant),[5] the Proposal includes a number of provisions intended to facilitate such indirect participants' access to FICC such that they can clear their transactions that would be subject to the mandate.[6] The Proposal would also provide for certain customer asset protection requirements to enhance the clearing mandate; for example, the Proposal would effectively require indirect participants' margin to be segregated from the assets of the direct participant that

2 *See, e.g.*, Tradeweb Completes Electronic Links to Major Clearing Houses For OTC Derivatives Trades (April 6, 2010), *available at* https://www.tradeweb.com/newsroom/media-center/news-releases/tradeweb-completes-electronic-links-to-major-clearing-houses-for-otc-derivatives-trades/.

3 *See, e.g.*, Proposal at 68.

4 *See, e.g.*, DTCC, *Central Clearing in the U.S. Treasury Cash Market* (May 2019), *available at* https://www.dtcc.com/~/media/Files/Downloads/WhitePapers/FICC-Central-Clearing-WP-Treasury-Market; Robert S. Steigerwald, Federal Reserve Bank of Chicago, *Central Counterparty Clearing* (2013) ("[T]he substitution of a central counterparty . . . allows the numerous bilateral exposures of a market participant to be substituted for a single net exposure to a financially and operationally robust counterparty.").

5 Proposal at 50 (indicating that there are 30 FICC sponsoring direct members and 1,900 sponsored indirect members).

6 For example, the Proposal would require FICC to "establish, implement, maintain and enforce written policies and procedures reasonably designed to, as applicable, ensure that it has appropriate means to facilitate access to clearance and settlement services of all [transactions subject to the clearing mandate], including those of indirect participants." Proposal at 103.

is providing access to FICC.[7] The Proposal would also modify the broker-dealer customer protection rule in a way that would, among other things, provide additional protection for indirect participants' margin and other assets held at a dealer direct participant.[8]

To the extent the Commission adopts a clearing mandate, we think it makes sense for the Commission also to adopt associated rules to facilitate clearing agency access and protect customer assets—without these types of requirements, the credit risk mitigation benefits of a clearing mandate may not be realized if market participants react by structuring their transactions (*e.g.*, due to lack of access or concern over asset protection) to fall outside the scope of the mandate. Given the likely significant increase in the number of transactions that will be cleared at FICC (and the number of market participants submitting such transactions), we believe it is essential that the Commission carefully consider whether appropriate market infrastructure is in place to support the mandate. For example, indirect participants may find it challenging and expensive to contract with direct participants to access FICC. On the other hand, direct participants may find it operationally complex and costly to provide access to a significant number of additional indirect participants. This could result in increased overall trading costs to indirect participants. The impact on the principal trading firm ("**PTF**") community is also important to consider, as market functionality and liquidity could be adversely impacted by the increased costs that FICC and/or direct FICC participants acting as sponsors would likely impose on PTFs, which currently act as substantial contributors of intraday liquidity and price formation information in the U.S. Treasury securities markets.

The Commission should therefore carefully consider how to ensure that any clearing mandate and associated requirements are appropriately structured such that these operational and cost concerns do not have the unintended effect of discouraging market participation in certain types of transactions, which may ultimately result in an undesired outcome of less overall market liquidity.

II. Facilitating Multilateral Electronic Trading

A clearing mandate could encourage the further development of multilateral trading in U.S. Treasury securities markets by, among other things, requiring more transactions (and, therefore, more market participants) to be subject to standardized risk management frameworks and post-trade processes at FICC, as well as eliminating (or at least reducing) the need for bilateral settlement instructions and documentation, which would expand the range of participants with which firms are able to transact over multilateral venues.[9] Multilateral trading could broaden the pool of market liquidity providers and potentially decrease trading costs.

In order to realize these benefits, however, the Commission must ensure that any clearing mandate is crafted such that it does not discourage trading, generally, or on particular

[7] Proposal at 94.

[8] Proposal at 110-123.

[9] *See*, *e.g.*, Proposal at 75.

platforms. For example, one aspect of the proposed clearing mandate would require clearing for all interdealer broker transactions, which the Proposal defines as any purchases and sales entered into by a direct participant if the direct participant (i) brings together multiple buyers and sellers using a "trading facility" and (ii) is a counterparty to both the buyer and seller in two separate transactions.[10] We are worried that a clearing mandate that only applies to certain platforms or trading protocols might shift liquidity away from those platforms and protocols not based upon trading firms' appraisal of their capabilities, but merely because the clearing mandate would apply. Therefore, in order to encourage the development of multilateral trading venues for U.S. Treasury securities, the Commission should ensure that any clearing mandate does not disadvantage certain trading platforms or protocols vis-à-vis others.

III. Promoting Market Capacity and Liquidity

A central clearing mandate could benefit the U.S. Treasury security markets by increasing dealers' capacity to provide liquidity in U.S. Treasury securities. Dealer capacity is a significant issue for U.S. Treasury securities transactions—many have noted that the U.S. Treasury securities markets have grown faster than the capacity of broker-dealers, banks and other firms that make markets in U.S. Treasury security transactions due, at least in part, to limitations on capital and balance sheet capacity allocated to U.S. Treasury securities markets activity by such market intermediaries.[11]

One way a clearing mandate could increase dealer capacity—at least in certain markets—is as a result of netting, which would reduce the dealer capital and balance sheet capacity attributed to such transactions. Multilateral netting of more transactions at FICC could, for example, allow a dealer's commitments to settle buy and sell transactions with different counterparties to be novated to FICC such that such dealer's settlement commitment and counterparty exposure is the net of the buy and sell trades (rather than the gross exposure to all counterparties), potentially leaving the dealer with greater balance sheet capacity to enter into additional transactions. In order for this benefit to be realized, the Commission and market participants need to understand and consider precisely how any clearing mandate would interact with the relevant capital and accounting rules. In this regard, we note that that such balance sheet benefits are more likely to be realized in the repo market than the cash market, given that cash transactions can already be netted for accounting purposes.[12]

In addition, the manner in which customers access central clearing indirectly through FICC members can affect the extent of capital and balance sheet benefits (or, potentially, costs) felt by the dealers transacting with those customers and the FICC members clearing on their

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10 Proposal at 41.

11 *See, e.g.*, Group of Thirty Report, *U.S. Treasury Markets: Steps Toward Increased Resilience*, *available at* https://group30.org/images/uploads/publications/G30_U.S_._Treasury_Markets-_Steps_Toward_Increased_Resilience__1.pdf.

12 *See* Peter Ryan and Robert Toomey, SIFMA, *Improving Capacity and Resiliency in US Treasury Markets: Part III* (Nov. 15, 2021), *available at* https://www.sifma.org/resources/news/improving-capacity-and-resiliency-in-us-treasury-markets-part-3/#_edn8.

behalf. We respectfully submit that the Commission should structure the clearing mandate and any related rules addressing the indirect clearing structures offered by FICC in ways that maximize such capital and balance sheet benefits and minimize their costs.

We also continue to believe that reforming Supplemental Leverage Ratio ("**SLR**") requirements—specifically the capital requirements associated with holding U.S. Treasury securities—would have a more meaningful positive impact on market liquidity overall through increased dealer ability to facilitate liquidity in U.S. Treasury securities markets. SLR reform should be considered in conjunction with any clearing mandate, as SLR reform would more directly benefit liquidity and capacity in U.S. Treasury securities markets, whereas increased central clearing would likely be more effective as a risk reduction tool.

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Once again, we appreciate the opportunity to share our views on this important issue and would be pleased to discuss in further detail as and when appropriate. If you have any questions, please do not hesitate to contact me.

Respectfully submitted,

Elisabeth Kirby, *Head of U.S. Market Structure*
[redacted]