

**MINUTES OF THE U.S. COMMODITY FUTURES TRADING COMMISSION'S
OCTOBER 25, 2021 MEETING OF THE
GLOBAL MARKETS ADVISORY COMMITTEE**

The Global Markets Advisory Committee (GMAC or Committee) convened for a public meeting on Tuesday, October 25, 2021, at 8:45 a.m. (EDT), via teleconference hosted by the U.S. Commodity Futures Trading Commission's (CFTC or Commission). The meeting consisted of three panels. Panel 1 provided an overview of Treasury market structure, recent stresses in the Treasury market, and proposals for reforms to mitigate against future stresses. Panel 2 provided a deep-dive into a proposal to reform the U.S. Treasury market through increased central clearing of Treasury market securities, including the benefits that an increase in central clearing might bring to the Treasury market and how increased central clearing of Treasuries might be implemented. Panel 3 discussed the implementation of recent Dodd-Frank Act reforms, including issues related to swap data reporting, uncleared margin, and swap dealer capital and financial reporting.

GMAC Members in Attendance

Angie Karna, GMAC Chair and Managing Director, Legal Department and Head of Legal for Global Markets, Americas, Nomura Securities International, Inc.
Chris Allen, General Counsel, Clients & Products, Standard Chartered Bank
Ted Backer, Global Head of Listed Derivatives Execution, Morgan Stanley
Ashley Belich, Head of Global OTC Derivatives & Dodd-Frank Advisory, RBC Capital Markets
Darcy Bradbury, Managing Director, D.E. Shaw & Co., L.P.
Gerry Corcoran, Chairman of the Board and Chief Executive Officer, R.J. O'Brien & Associates, LLC
Sunil Cutinho, President, CME Clearing
David Goone, Chief Strategy Officer, Intercontinental Exchange, Inc.
Paul Hamill, Global Head of Fixed Income, Currencies and Commodities, Citadel Securities
Amy Hong, Head of Market Structure Strategy, Goldman Sachs
John Horkan, Group Chief Operating Officer and Head of North America, LCH Group
Adam Kansler, President – Financial Services, IHS Markit
Robert Klein, Managing Director & General Counsel, Citigroup Global Markets
Agnes Koh, Chief Risk Officer, Singapore Exchange Limited
Janet Kong, Chief Executive Officer, Trading & Shipping, bp Americas
Ben MacDonald, Global Head of Enterprise Products & President of Bloomberg's SEF and SDR, Bloomberg LP
Erik Tim Müller, Chief Executive Officer, Eurex Clearing AG ("Eurex")
Joseph Nicosia, Global Platform Head of Cotton, Louis Dreyfus Company
Murray Pozmanter, Managing Director & General Manager, DTCC
Thomas Sexton, President & Chief Executive Officer, National Futures Association
Maggie Sklar, Senior Policy Advisor and Director of International Engagement, Federal Reserve Bank of Chicago
Jessica Sohl, Partner & President, HC Technologies
Thane Twiggs, Chief Compliance Officer, Cargill Risk Management
Supurna VedBrat, Managing Director & Global Head of Trading, BlackRock
Masahiro Yamada, Managing Director & Head of America's Cross Asset Structuring, JP Morgan Securities LLC

CFTC Commissioners and Staff in Attendance

Commissioner Dawn D. Stump, GMAC Sponsor

Acting Chairman Rostin Behnam

Andrée Goldsmith, Special Counsel, CFTC, Market Participants Division, GMAC Designated Federal Officer

Invited Speakers in Attendance

Sam Schulhofer-Wohl, Senior Vice President and Director of Financial Policy and Outreach, Federal Reserve Bank of Chicago

Michael Pedroni, Executive Vice President and Managing Director, Head of Global Research and Markets, Managed Funds Association (MFA)

Jennifer Han, Chief Counsel and Head of Regulatory Affairs, MFA

Professor Darrell Duffie, Adams Distinguished Professor of Management and Professor of Finance, Graduate School of Business, Stanford University

Graham Harper, Executive Committee Member of the FIA Principal Traders Group and Head of Public Policy and Market Structure, DRW Trading Group

Laura Klimpel, General Manager, Fixed Income Clearing Corporation

Tara Kruse, Global Head of Infrastructure, Data and Non-Cleared Margin, International Swaps and Derivatives Association, Inc. (ISDA)

Kyle Brandon, Managing Director, Head of Derivatives Policy, Securities Industry and Financial Markets Association (SIFMA)

Colin Lloyd, Partner, Cleary Gottlieb Steen & Hamilton, LLP

I. Opening Remarks

Ms. Goldsmith called the meeting to order. The Sponsor, Commissioner Stump, welcomed everyone and thanked Acting Chairman Behnam, the presenters, Ms. Karna, and Ms. Goldsmith, noting that this is Ms. Goldsmith's last meeting. She explained that the health and efficient functioning of the Treasury market is of vital importance to the CFTC due to the interconnectedness between the Treasury market and the derivatives market. She also stated that the first panel will focus on recent stresses in the U.S. Treasury market and various proposals and recommendations that have been made to mitigate these stresses in the future. The second panel will dive deeper into one of the most discussed proposals to reform the U.S. Treasury market, increased central clearing. The third panel will discuss recent developments in the CFTC's continued implementation of the Dodd-Frank Act. Next, Acting Chairman Behnam stated that he is very interested in the Treasury market discussion, not only because of what we experienced in the March-April 2020 period, but also in terms of experiences in the Treasury market and the relationship between cash and derivatives over the past decade and more. With regard to the implementation of Dodd-Frank, he stressed the importance of consistently reviewing rules and policies so that markets function efficiently and transparently.

II. Panel 1: Treasury Market Structure and Recent Stresses

Mr. Schulhofer-Wohl covered dislocations in the Treasury market stemming from the March 2020 pandemic and September 2019 repo market pressures, noting that in both cases there

was insufficient supply of liquidity to meet demand. In March 2020, financial markets reacted with severe volatility, and after an initial flight to safety into Treasuries, the highly uncertain circumstances caused broad-based and rapid sales of Treasuries. Many market participants sold Treasury securities to obtain cash and cash-like assets. Some market participants were motivated to unwind positions when the markets became too volatile. Precautionary concerns amplified initial sales in order to guard against the risk that markets would deteriorate further. As a result, there was a dramatic increase in the demand for intermediation, and bid-ask spreads and other measures of liquidity reached the worst levels since the global financial crisis. In September 2019, rate pressures in repo rates spilled over to other money markets, such as federal funds. Although the dynamics of this event differ from March 2020, in both cases supply and demand for liquidity did not adjust enough to keep the price of liquidity from soaring. To mitigate against future stresses, there have been calls to increase public dissemination of market data and address gaps in data for the cash and repo markets as well as calls for more central clearing in the Treasury market. There are also suggestions to reconsider how Treasury trading venues are regulated. For example, the U.S. Securities and Exchange Commission (SEC) has proposed extending Regulations ATS and SCI to alternative trading systems (ATs) for government securities.

Mr. Pedroni focused on the attributes of the Treasury markets that should inform any policy reforms going forward. Treasuries are not a uniform market, and the various segments of the Treasury market (i.e., on the runs, off the runs, cheapest to deliver issues, and futures) performed differently in response to the COVID shock. Surprise shock from COVID prompted heavy redemptions and an overseas dash for dollars. Treasury markets rely on multiple participants, not just traditional dealers, for liquidity. Repo financing relies heavily on bilateral relationships. Because of these attributes, expanded clearing options, including for repos, should be explored as part of the solution to modernizing Treasury markets. During the dash for dollars in March 2020, the sellers were from non-U.S. official accounts (34 percent), foreign private accounts (29 percent), mutual funds (31 percent), and hedge funds (6 percent). Foreign central bank selling was a major source of turmoil during the pandemic. The early narrative of the pandemic volatility was that hedge fund basis sellers were engaged in fire sales which caused the volatility, but the evidence of this is weak. Hedge fund basis traders appear to have been actually supporting the liquidity in these markets. Hedge funds hold about 25 percent of their investing assets in cash as a precaution in case of volatile times.

Ms. Han shared four recommendations to enhance the liquidity and functioning of the Treasury markets even in times of shock. First, central clearing solutions should be expanded. Regulators should work together to expand the development of voluntary central clearing. Second, targeted enhancements should be made to regulatory data collection. Third, public dissemination of post-trade transaction data should be carefully introduced. Fourth, trading venue oversight should be rationalized (e.g., MFA recommends that the SEC extend Reg ATS to alternative trading systems that trade government securities or repo or reverse-repo agreements on government securities and examine other electronic trading venues).

Ms. Karna opened the floor for questions and comments. Ms. Vedbrat said that central clearing improves market resiliency, and recommended that consideration be given to expanding the types of eligible collateral and enhance the ability for clients to net collateral posted. She

suggested that very liquid assets, beyond what is already accepted as collateral, might include various liquid ETFs and money market funds. She asked whether the clearing solutions being discussed include both on the run and off the run Treasuries. Mr. Pedroni said that the market would benefit significantly from central clearing of off the run Treasuries, as that is an area where clearing solutions are currently very limited. Mr. Yamada asked whether holders of on the run and off the run Treasuries should be consulted regarding dissemination of their trade data. Mr. Pedroni responded that the idea in post-trade transparency is to disseminate aggregate anonymized information or the anonymized information on a transaction, so users of that data have access to price and quantity, but not to who conducted a trade. Ms. Han added that MFA advocates for a careful and calibrated approach to data dissemination.

[Break]

III. Panel 2: Clearing in the Treasury Market

Professor Duffie explained that bid-offer spreads widened dramatically in the Treasury market related to the March 2020 pandemic, and many market participants had trouble getting liquidity. While it is sometimes said that the Fed can fix this situation, it took several weeks, despite Fed actions, before bid-offer spreads returned to normal. Central clearing has several benefits which may address this problem, including lowering the commitments of dealers and freeing up their balance sheets. Dealer balance sheets have been more constrained since the financial crisis, while the Treasury market expands greatly, which is unsustainable. Central clearing dramatically reduces settlement commitments, lowers counterparty risk, increases transparency, and reduces settlement failures by freeing up dealer balance sheets. The FIA paper by principal trading firms (PTFs) suggests that there are ways to get to broader central clearing without a regulatory mandate, or if a mandate is needed, without causing undue costs or worsening market performance.

Mr. Harper discussed the benefits of central clearing, but noted that obstacles to voluntary clearing exist and issues would need to be resolved prior to any mandates being implemented. He stressed that achieving more central clearing requires implementing a client clearing model at Fixed Income Clearing Corporation (FICC) that all market participants can access and utilize. Currently the vast majority of Treasury clearing at FICC is done by direct members, not through client clearing. Irrespective of asset class, most market participants access central clearing through a client clearing model. In sponsored clearing, clearing members are permitted by FICC to elect to only accept transactions that are executed with them. This means market participants are unable to locate a clearing member to clear their entire portfolio across execution counterparties. FIA PTG recommends that FICC implement enhancements to its client clearing offering to make it available to all market participants by removing the ability of sponsoring clearing members to discriminate based on execution counterparty and by requiring clearing members to operate independently from affiliated trading businesses when deciding whether to offer clearing services. FICC should permit both direct clearing members and clients to utilize cross-margining arrangements on fair and non-discriminatory terms and ensure clients are adequately represented in CCP governance processes.

Ms. Klimpel agreed with the benefits of increasing central clearing in the Treasury market covered by prior panelists, but added that mitigation of fire sale risk should be a top

priority. FICC agrees that Treasury markets require viable client clearing models for market participants that either cannot or choose not to become direct members of FICC, but that being said, what the prior presentation characterized as material limitations in six client clearing models FICC would characterize as options. She explained that in the correspondent clearer model and prime brokerage models, the underlying client does not become an FICC member, thus FICC only has obligations to the correspondent clearer or prime broker itself. This allows FICC to net the margin associated with the activity in the core clearers or prime brokers account, including across clients, which generally reduces margin costs for the clearing intermediary and may benefit the client. If market participants and their clearing intermediaries value the benefits of novation to and credit intermediation by FICC more, they might elect the sponsored clearing model instead. As FIA PTG notes, FICC permits transactions of a sponsored member client to be executed either with the sponsoring member itself or with a third-party. FICC believes it is essential that it retain all of the client clearing models that it currently has as the array of market participants in the Treasury market is very diverse, such that a singular model would not work and would disenfranchise many market participants. That said, there is more work to do to ensure the viability of client clearing at FICC in connection with a potential clearing mandate. We need to improve the efficiency of cross margining between cash and derivatives, and FICC hopes to rollout an enhanced model by June 2022. A public-private partnership will be required with regard to the treatment of margins posted by a client. Clearing intermediaries at FICC are not permitted to rehypothecate client margin without reserving commensurate funds which makes it challenging to offer client clearing of treasuries at scale.

Ms. Karna opened the floor for questions and comments. Topics discussed, among others, included cross-margining; whether central clearing would have relieved the supply imbalance that caused volatility in March 2020 and reduced market stress and settlement failures and freed up balance sheets; whether FICC has analyzed the capital levels that would be necessary for increased clearing to be offered; whether when a trade goes to FICC, the original counterparties have residual risk to one another, particularly in the event of default; the inability to have electronic trading without central clearing and the importance of linking execution of trading with large scale clearing; and how to address the suggestion in the FIA paper that it is problematic when a clearing member is also the dealer due to conflicts of interest.

[Break]

IV. Panel 3: Dodd-Frank Implementation

Ms. Kruse gave an overview of the changes to CFTC swap data recordkeeping and reporting requirements and real-time reporting requirements, noting that the amended versions of these rules significantly overhauled the list of required reportable data elements with a clear intention to improve the quality and consistency of the data available to the CFTC. The majority of the changes to the data elements are based on a published list of critical data elements (CDE) published by CPMI and IOSCO. The CFTC publication of a separate technical specification is helping the industry understand with greater precision, the definition, allowable values, and formats for each data element. Swap data repositories and market participants are working to reconcile inconsistencies between the technical specification and the rules to inform their technical builds. The updated final version of the technical specification was published on

September 30, 2021, and each SDR will need to provide updated final messaging specifications and counterparties will need to build corresponding changes to their logic with only seven months before the go-live date. Ms. Kruse also discussed implementation challenges, including the difficulty of three different implementation dates—one for amended CFTC reporting requirements, a second to report a unique product identifier, and a third once the ISO 2022 standard has been updated to incorporate CFTC-specific data fields. The major challenge with implementing the trade reporting requirements in a consistent, accurate manner has always been the need for parties to translate what is in the written rules into internal code that produces the message sent to their SDR. This is a global challenge and is being addressed by ISDA with active collaboration of market participants who are contributing their knowledge and coding skills to develop mutualized, open source code for trade reporting through the Digital Regulatory Reporting Initiative (DRR). The DRR is currently prioritizing the CFTC’s amended rules since they have the earliest compliance date, and it can then be extended and harmonized as other jurisdictions finalize their amended rule sets. With regard to block trades, she encouraged the Commission to study the 67 percent block threshold and 75 percent cap threshold methodology, and consider the potential impact of an increased shift in block and cap thresholds on trading.

Mr. Lloyd noted that an exemption or no-action relief from the reporting requirements has been extended to non-U.S. swap dealers since 2013 for certain cross-border swaps that have a relatively weak U.S. nexus, but no-action relief is due to expire on December 1, 2022. The purpose of relief was to provide additional time for data sharing arrangements with local regulatory authorities to be put in place so that the CFTC can move forward on comparability determinations, but it is not clear that the period before relief expires is sufficient to put these arrangements in place. He suggested that the topic needs to be on the CFTC’s agenda to avoid market disruptions.

Ms. Kruse moved on to uncleared margin, noting that the actions of the Commission and other regulators to split the final phase of initial margin (IM) implementation into two phases—Phases 5 and 6—and to defer those phases for a year following the onset of the COVID-19 pandemic provided valuable time for Phase 5 entities to prepare for compliance. The Phase 5 compliance date of September 1, 2021, has come and gone without notable impact. As the number of Phase 6 relationships is expected to be doubled out of Phase 5, it is a safe prediction that there will be major backlogs and bottlenecks. She explained why IM preparation is more challenging for Phase 5 than it was for Phases 1 to 4 and why those challenges would be exacerbated for Phase 6. She highlighted three areas which posed significant challenge for Phase 6: custodial onboarding, separately managed accounts, and automation. She also highlighted some opportunities that Phase 6 entities and their counterparties can leverage to help ease the glide path to September 1st. Finally, she discussed the report of the GMAC Subcommittee on Margin Requirements for Non-Cleared Swaps, which had been approved by the GMAC and included recommendations on initial margin requirements. The Commission acted on some of these recommendations, and she encouraged the Commission to consider addressing other recommendations in the report that would provide meaningful assistance for Phase 5 and 6 firms.

Ms. Brandon discussed a joint CFTC-SEC request for comment on potential ways to implement portfolio margining of uncleared swaps and non-cleared security-based swaps. She noted that once security-based swap dealer (SBSD) registration rules apply, non-bank swap dealer/security-based swap dealers (SD-SBSDs) subject to separate and different margin and

segregation regimes will be at a disadvantage to bank SD-SBSDs, and the market as a whole will experience increased liquidity, settlement, and operational risks. Portfolio margining would, by ameliorating these issues, offer benefits to both market participants and securities and derivatives markets. SIFMA agrees with the CFTC and SEC that any portfolio margining arrangement should consider customer protection, financial stability, and regulatory objectives undergirding their respective margin and segregation requirements. Regarding cross-border issues of the CFTC capital rule, she stated that the CFTC included an option for U.S. and non-U.S. swap dealers to rely on bank-based approaches that are generally consistent with Basel capital standards for bank holding companies, in addition to an SEC-style net capital approach. She stated that if the CFTC believes the other jurisdiction's requirements are lacking in a specific identifiable way, it should base any deemed necessary condition on the home country financial reporting and capital regime, rather than on U.S. style information and calculations. Regarding financial reporting for non-U.S. bank swap dealers, she stated that CFTC Letter No. 21-18 allows non-U.S. bank swap dealers in G20 jurisdictions subject to Basel capital standards to follow home country capital and financial reporting standards. The relief expires on the earlier of October 6, 2023 or superseding CFTC action, and SIFMA looks forward to engaging with CFTC staff on any permanent relief that is proposed.

Mr. Lloyd discussed three implementation issues in conjunction with the recent October 6th compliance date from the Commission's capital rules for non-bank swap dealers. First, the requirement that a non-bank swap dealer maintain capital equal to some percentage of its uncleared swap margin amount presents significant implementation issues because the systems and processes many firms use to calculate initial margin requirements are only set up to apply to those relationships that are in scope for initial margin, but the requirement also extends to other open positions. Second, some dual registrants with the CFTC and SEC are electing an approach under SEC rules called the alternative compliance mechanism, which provides them with relief from various SEC capital and other financial responsibility rules on the condition that they comply with parallel CFTC rules with regard to not only to their CFTC-regulated swaps business, but also their security-based swap business. While this framework makes sense for situations where the CFTC has a more significant regulatory interest due to the firm's limited security-based swap business, a number of questions remain regarding how this will be administered in practice. Third, regarding the ability of non-bank swap dealers to use internal models to compute market and credit risk charges for capital, the model review process is a significant undertaking, both for firms and NFA staff, and for many firms there was not sufficient time to complete the process which has led to the need for relief.


Ms. Karna opened the floor for questions and comments. Ms. Kong suggested that the CFTC examine the potential costs and time needed for U.S. non-bank swap dealers to implement the initial margin and model validation rules, which is challenging given the current timeline. Ms. Belich stated that compounding the issues on implementation of CFTC and other trade reporting requirements is that many jurisdictions outside the U.S. look to CFTC rulemaking and guidance for rewriting their own rules. This is important from the standpoint of coding and interpretation of complex technical scenarios and if firms face these issues from a U.S. perspective, they would face similar issues in their home country, potentially causing fragmentation. She added that data integrity is just as important to firms from a reporting standpoint as it is to regulators and market participants. Mr. Twigg stated that not only non-

bank, foreign entities have difficulty with the capital rules, but also U.S. non-bank swap dealers.


V. Closing Remarks

The Sponsor noted that with regard to the Treasury market, the impact of post-financial crisis reforms on liquidity providers cannot be ignored. Dealers' balance sheets are more constrained and are affected by new regulatory capital requirements, and yet the Treasury market continues to grow, so considerations need to be in that context. She recognizes that some of the potential paths forward involve other oversight bodies, but the implication for the derivatives markets makes it necessary for the CFTC to engage, and today's meeting will better enable it to do that. She added that issues should be looked at dynamically and CFTC rules updated as needed. She recommended that immediate attention be given to substituted compliance determinations for swap data reporting. Regarding block trade threshold rules, she continues to believe CFTC would benefit from publishing the calculated block sizes with the new categories and holding a roundtable or hearing. She also stated that the CFTC should focus on making the swap dealer capital and uncleared margin rules more workable. She closed by thanking everyone for their participation. The meeting was adjourned at 12:10 p.m (EDT).

I hereby certify that the foregoing minutes are accurate.



Angie Karna
GMAC Chair



Date