



THE EVOLVING STRUCTURE OF THE U.S. TREASURY MARKET: SECOND ANNUAL CONFERENCE

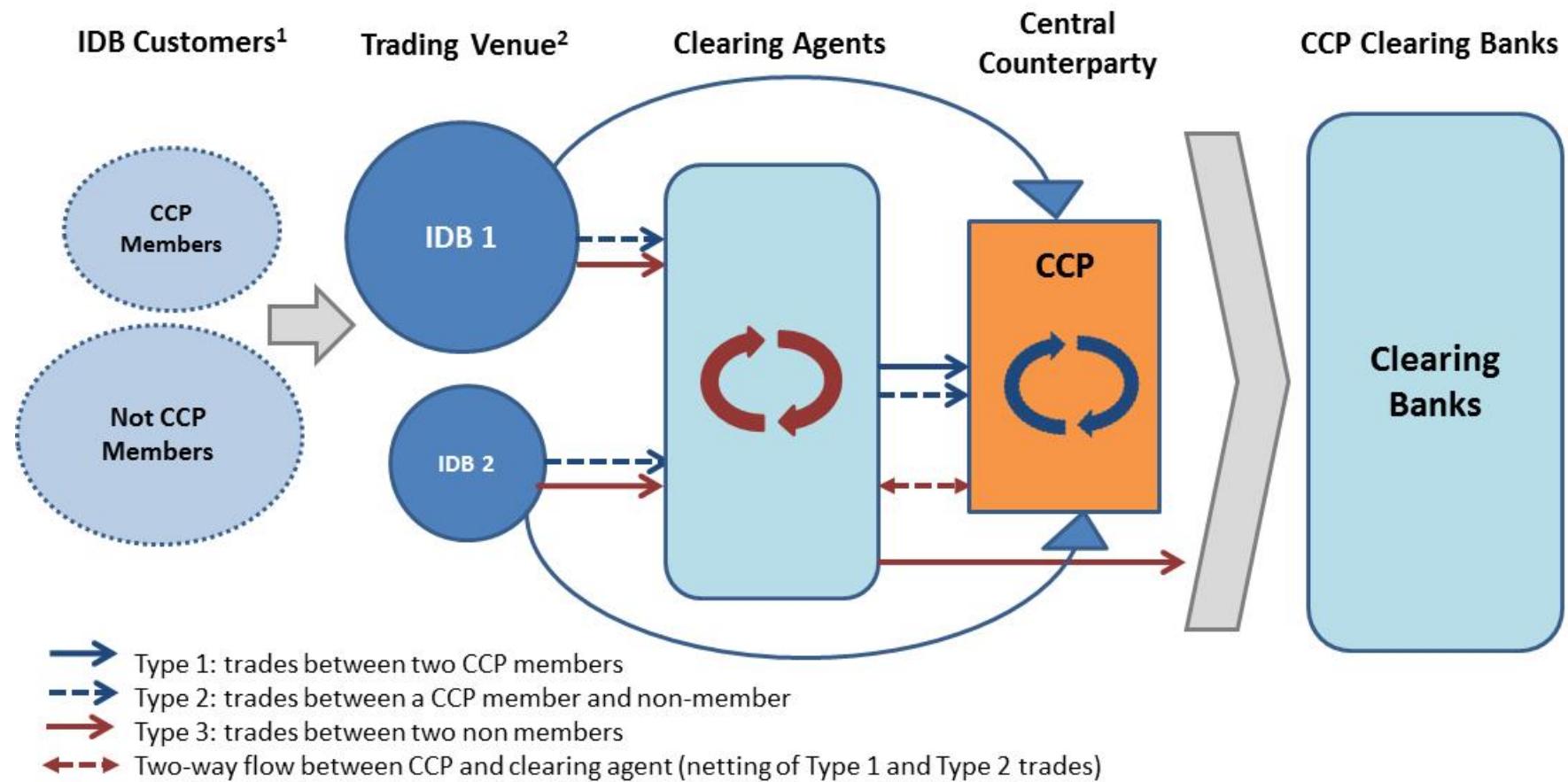
Treasury Secondary Market Clearing Practices

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Stylized Clearance Flows for IDB Treasury Trading



¹ Size of the figures roughly indicates relative share of activity in 2014.

² The vast majority of IDB trading today occurs across two platforms. The number and identity of the IDBs may shift in the future. The IDBs are members of the CCP and bilaterally clear with non-CCP platform users or allow these platform users to use clearing firms that are CCP members to facilitate clearance. In either case the IDBs retain the credit risk of its platform users. For trades between two CCP netting members clearance moves directly to the CCP.

Counterparty Risk Management

Discussion Questions

- Are margin practices for both centrally cleared and bilaterally cleared transactions sufficient?
- Are there opportunities to improve margin practices?
- Is there a need to supplement margin with other forms of risk mitigation to protect against counterparty risk?
- What are the best ways to risk manage potential exposures related to automated trading, particularly intraday risks associated with high speed trading?

Growth in Decentralized Clearing

Discussion Questions

- How visible is activity of large IDB platform users to the CCP? What are implications for CCP risk management?
- How do IDB platforms manage intraday exposures? Are potential exposures across multiple platforms captured?
- Any comments on uniformity of risk management across market venues?
- Any comments on collateral efficiency?
- Does decentralized clearing add to aggregate counterparty risk?

Broader Central Clearing Considerations

Discussion Questions

- Does the current bifurcation between bilateral and central clearing increase credit risk to market participants, IDB platforms, or the CCP itself?
- What factors drive the clearing practices of market participants? What aspects of their investment strategies or market access are particularly important for clearing?
- Are there elements of clearing processes in other markets that could inform our understanding of an optimal clearing model for US Treasuries?
- Are there ways to increase central clearing voluntarily?
- What are the merits and risks of mandating central clearing for Treasury cash markets?

