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BNY

Before the

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Task Force on Monetary Policy, Treasury Market Resilience, and Economic Prosperity

"Examining Treasury Market Fragilities and Preventative Solutions"

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I. Introduction

Good morning, Chairman Lucas, Ranking Member Vargas, and members of the Task Force. Thank you for the opportunity to testify on the importance of U.S. Treasury market resilience. My name is Nate Wuerffel, and I serve as BNY's Head of Product for the Global Collateral Platform and Head of Market Structure.

BNY is a global financial services company that helps make money work for the world—managing it, moving it, and keeping it safe. For more than 240 years BNY has partnered alongside clients, putting its expertise and platforms to work to help clients achieve their ambitions. Today, BNY helps over 90 percent of Fortune 100 companies and nearly all of the top 100 banks globally to access the money they need.[1] BNY supports governments in funding local projects and works with over 90 percent of the top 100 pension plans to safeguard investments for millions of individuals. As of March 31, 2025, BNY oversees $53.1 trillion in assets under custody and/or administration and $2.0 trillion in assets under management.[2]

II. Our History

BNY is the nation's oldest bank, founded by Alexander Hamilton in 1784.[3] BNY established its credibility as a financial institution by being liquid, transparent, and highly resilient. These tenets, which have guided our growth as an institution, remain core to our business today.

[1] BNY. (n.d.). About BNY. Retrieved from https://www.bny.com/corporate/global/en/about-us/about-bny.html
[2] BNY. (2025, April 11). Earnings press release 1Q 2025. Retrieved from https://www.bny.com/assets/corporate/documents/pdf/investor-relations/earnings/earnings-press-release-1q-2025.pdf
[3] Alexander Rose (n.d.). Making Money Work for the World: A Brief History of Bank of New York Mellon, https://www.bny.com/assets/wealth/pdf-library/240-history-timeline.pdf

Over our 241-year history, we have developed solutions that led to a number of firsts in the United States economy: we provided the first loan to the U.S. government after the Revolutionary War; we were the first company listed on the New York Stock Exchange; and we provided essential financing to major infrastructure projects, from the Louisiana Purchase to the Erie Canal and from the transnational railroads to the New York City Subway system. BNY was also one of the first financial institutions to use an electronic system for clearing government securities. Those actions – taken for granted today – were financial innovations at the time and have played a significant role is helping the U.S. become the world's predominant economic engine.

We are proud of the historic role that BNY has had in helping to grow the U.S. financial system into the leading power it is today.

III. Our Business Today

Today, we are a global financial services company with offices in more than 35 countries.[4] Our business strategy is led by client choice. We are where our clients want to be, and we have the scale and capacity to support their goals across the investments, communities, and countries they want to be in. Our global client base ranges financial services firms, pension funds, mutual funds, unions, endowments, corporations, as well as federal, state, and local governments. We are proud of the trust our clients place in us, and of our role in helping them achieve their financial objectives, no matter their size, scale, or complexity.

We have a different business model compared to a traditional retail, commercial, or investment bank. Our core business is to provide custody, clearing, collateral management, and other financial services to institutions and governments—not consumer banking.

Through its three primary business segments, BNY is uniquely positioned to serve the end-to-end investment lifecycle, acting as a single, integrated platform for clients looking to create, administer, manage, transact, distribute, or optimize investments.[5]

Our Securities Services segment is composed of our Asset Servicing, Corporate Trust, and Depositary Receipts businesses. This segment includes our core custody services: the safekeeping, recordkeeping, and servicing of assets on behalf of our clients and their clients.

Our Market and Wealth Services segment includes a number of industry-leading businesses. The first is Pershing, whose platform provides access to clearing, settlement, and other services for broker dealers and registered investment advisors. Our Treasury Services business includes our payments platform, which offers clients the ability to process

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[4] BNY. (n.d.). Retrieved from https://www.bny.com/corporate/global/en/about-us/locations.html
[5] BNY. (2025). Annual Report 2024, Retrieved from https://www.bny.com/assets/corporate/documents/pdf/investor-relations/annual-report-2024.pdf

payments across multiple instant payment rails. We process approximately $2.4 trillion of payments per day across all payment rails.[6] Through our Clearance and Collateral Management businesses, we clear and settle more than $19 trillion in equity and fixed-income transactions daily in over 90 markets and manage more than $6.5 trillion in collateral balances worldwide.[7,8]

Finally, our Investment and Wealth Management segment comprises our asset management business and a private bank that services individuals, families, family offices, and non-profits. BNY has a multi-firm investment management business, which gives clients the choice to invest in an array of asset classes and strategies through a variety of vehicles depending on their needs.

IV. History of the U.S. Treasury Market

The U.S. Treasury Market and BNY share a long and interconnected history. Following the Revolutionary War, the U.S. owed $80 million with unpaid interest on the debt amounting to $4.5 million annually. In 1787, the government stopped submitting installments even on the principal.[9] After being named our nation's first Treasury secretary, Alexander Hamilton negotiated a $200,000 loan from The Bank of New York to fund the government and meet the country's immediate obligations.[10] That loan – known as Warrant #1, which sits proudly in our New York headquarters – was just the beginning.

In January 1790, Hamilton sent a report to Congress that laid out his vision for how the country would address the nation's debt.[11] He believed that "[N]ational debt if it is not excessive will be to us a national blessing; it will be [powerful] cement of our union."[12] His plan was rooted in two core attributes: safety and liquidity. Government bonds would be safe because they would be backed in full by the U.S. government on their original terms, and liquid because they could be easily converted to cash at a fair market price by any holder.

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[6] BNY. (2025). Annual Report 2024. Retrieved from https://www.bny.com/assets/corporate/documents/pdf/investor-relations/annual-report-2024.pdf
[7] BNY. (n.d.). Outsourced clearing fact sheet. Retrieved from https://www.bny.com/assets/corporate/documents/pdf/solutions/outsourced-clearing-fact-sheet.pdf
[8] BNY. (n.d.). Clearing and Collateral Management. Retrieved from https://www.bny.com/corporate/global/en/solutions/securities-services/clearance-and-collateral-management.html
[9] Alexander Rose (n.d.). Making Money Work for the World: A Brief History of Bank of New York Mellon, https://www.bny.com/assets/wealth/pdf-library/240-history-timeline.pdf
[10] Id.
[11] National Archives. (n.d.). Report Relative to a Provision for the Support of Public Credit [9 January 1790]. Retrieved from https://founders.archives.gov/documents/Hamilton/01-06-02-0076-0002-0001
[12] National Archives. (n.d.). Letter from Alexander Hamilton to Robert Morris, [30 April 1781]. Retrieved from https://founders.archives.gov/documents/Hamilton/01-02-02-1167

Hamilton's plan proved to be a resounding success. Just five years later, the national debt was consolidated and interest payments paid on time. Overseas opinion of America's financial integrity was transformed. The United States enjoyed the highest credit rating in European capital markets and investors were so eager to buy U.S. bonds that they were selling for ten percent over par.[13]

Today, there is no other market in the world where so much liquidity can safely change hands so quickly. An average of more than $926 billion in cash and $5 trillion in financing transactions involving Treasury securities occur every day.[14]

V. Our Support of the U.S. Treasury Markets

Since issuing the first loan to the U.S., BNY has played an important role in building the safety and liquidity of the Treasury market:

- We are the primary settlement provider for the Treasury market.
- We custody approximately a third of marketable Treasury securities.
- We are the leading triparty liquidity venue in the world for Treasury securities.
- We are one of the top intermediaries in centrally cleared Treasury repo financing, and the world's leading agent lender.

VI. Role of the U.S. Treasury Markets in Americans' Lives

Owing to the United States' creditworthiness and status as the world's leading economy, the U.S. Treasury market has become the biggest, deepest, most liquid bond market in the world. It plays an important role in the lives of Americans.

- **It serves as a benchmark for global financial instruments and markets.** U.S. Treasury yields influence the borrowing rates for everything from mortgages to auto and consumer loans to corporate debt to capital markets globally.
- **It efficiently finances the U.S. government.** Through the "regular and predictable" issuance of debt with various maturities (short-term bills, medium-term notes, and long-term bonds), the Treasury market allows the government to be financed at the least cost to taxpayers over time.[15]

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[13] Alexander Rose (n.d.). Making Money Work for the World: A Brief History of Bank of New York Mellon, https://www.bny.com/assets/wealth/pdf-library/240-history-timeline.pdf

[14] U.S. Department of the Treasury. (2025). Treasury Borrowing Advisory Committee, Developments in Central Clearing in the U.S. Treasury Market. Retrieved from https://home.treasury.gov/system/files/221/TBACCharge2Q12025.pdf

[15] U.S. Department of the Treasury. (2024, July 11). Remarks by Assistant Secretary for Financial Markets Joshua Frost on Principles of U.S. Debt Management Policy. Retrieved from https://home.treasury.gov/news/press-releases/jy2460

- **It is used as a transmission mechanism for monetary policy.** The Federal Reserve conducts purchase, sale, and financing transactions in the Treasury market, including daily repo and reverse repo operations, as a means of supporting economic growth and keeping the federal funds rate in the target range set by the Federal Open Market Committee.[16]
- **It serves as a safe haven for investors in times of stress.** Investors have viewed Treasury securities as a risk-free or near-cash asset – assets that retain their value and can be easily sold during both normal and stressed market periods.[17]

VII. Recent Market Developments

At $29 trillion outstanding, the Treasury market has grown since the pandemic, when it stood at $17 trillion. The Congressional Budget Office forecasts it will nearly double in size over the next 10 years, with government deficits and the rising cost of interest payments pushing the market to more than $52 trillion.[18] This will boost the amount of collateral to be financed and pressure dealers to intermediate an even larger market.

The growth in the Treasury market and several market liquidity events have raised concerns regarding the resilience of the Treasury market. Over the last decade, the market has experienced several episodes of dysfunction, including in 2014, 2019, and following the COVID-19 pandemic. These episodes have caused the public and private sector to reassess the underlying safety and liquidity of the Treasury market, particularly its capacity to absorb and rebound from shocks.[19]

Questions regarding the functioning of the Treasury market surfaced following the "flash rally" in 2014, when Treasury yields fell and then quickly rebounded without a clear cause. The episode highlighted the role of high-speed electronic trading in the changing structure of the Treasury market, and prompted the Inter-Agency Working Group for Treasury Market Surveillance (IAWG) – composed of staff from the U.S. Department of the Treasury (U.S. Treasury), Board of Governors of the Federal Reserve System (Federal Reserve), Federal Reserve Bank of New York (FRBNY), Securities and Exchange Commission (SEC), and

[16] Federal Reserve Bank of New York. (n.d.). Monetary Policy Implementation. Retrieved from https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation
[17] Securities Industry and Financial Markets Association. (n.d.). Treasury Market Structure. Retrieved from https://www.sifma.org/explore-issues/treasury-market-structure/
[18] Congressional Budget Office. (2025). The Budget and Economic Outlook: 2025 to 2035. Retrieved from https://www.cbo.gov/system/files/2025-01/60870-Outlook-2025.pdf
[19] U.S. Department of the Treasury. (n.d.). IAWG Treasury Report. Retrieved from https://home.treasury.gov/system/files/136/IAWG-Treasury-Report.pdf

Commodity Futures Trading Commission (CFTC) – to review and make several recommendations to improve the resilience of the market.[20]

Market functioning concerns were further amplified by Treasury funding market pressures in 2019, when repo rates increased in response to a shortfall of liquidity. The 2020 pandemic "dash for cash" resulted in dysfunction in the Treasury market. Prices for Treasury securities often rise as investors seek the safety of the instruments. But faced with significant uncertainty, investors sold Treasury securities to raise cash, causing Treasury prices to fall and strains in intermediation.

In both 2019 and 2020, the Federal Reserve intervened to restore Treasury market functioning, injecting liquidity into the market by purchasing and financing Treasury securities in large scale. During the pandemic, the Federal Reserve purchased at a pace not seen before, buying more than $1 trillion in securities in just over 4 weeks, eventually bringing its balance sheet to an all-time high of more than $8.5 trillion with Treasury security holdings of more than 25 percent of the market.[21]

Since the pandemic, the Treasury market has continued to experience bouts of volatility that have had echoes of prior events. For example, in 2023, amidst regional banking stresses, Treasury market volatility rose as investors became worried about the market risk of Treasury securities held by the banking system.

Most recently, the events that took place in April tested market functioning and prompted investors to question the resiliency of the market in the face of trade and policy uncertainty. Changes in trade policy prompted volatility across global asset prices that spilled over into uncertainty about the future direction of growth, inflation, interest rates, and the supply of Treasury debt.[22]

Although Treasury markets often act as a safe haven in times of stress, in April, investors again began selling their Treasury holdings, pushing up interest rates and testing Treasury market functioning.[23] Measures of market liquidity – the ability to easily convert a Treasury security to cash – deteriorated measurably.

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[20] U.S. Department of the Treasury, Board of Governors of the Federal Reserve System, Federal Reserve Bank of New York, & U.S. Securities and Exchange Commission. (2014, October). Joint Staff Report: The U.S. Treasury Market on October 15, 2014. Retrieved from https://www.sec.gov/files/treasury-market-volatility-10-14-2014-joint-report.pdf

[21] Federal Reserve Bank of Richmond. (2022). Econ Focus, Q3. Retrieved from https://www.richmondfed.org/publications/research/econ_focus/2022/q3_federal_reserve

[22] U.S. Department of the Treasury. (2025, April 29). Report to the Secretary of the Treasury from the Treasury Borrowing Advisory Committee. Retrieved from https://home.treasury.gov/news/press-releases/sb0121

[23] BNY. (2025, April 15). Cross-Border Outflows Persist in U.S. Fixed Income. Retrieved from https://www.bny.com/corporate/global/en/solutions/capital-markets-execution-services/iflow/short-thoughts/cross-border-outflows-persist-in-us-fixed-income.html

Treasury financing markets showed some initial signs of precautionary liquidity building, especially after a poorly received auction, with market participants shortening their positions, demanding higher levels of cash, and bidding up term repo rates. Additionally, swap spreads narrowed sharply, prompting concerns about a possible disorderly unwind of levered positions similar to the unwind of the cash-futures basis trade that amplified volatility during the pandemic.[24]

As uncertainty eased, Treasury market functioning improved and funding market pressures lifted, but the events serve as a reminder that the continued safety and liquidity of the Treasury market are essential to its functioning.

VIII. Regulatory Developments and the Impact on Treasury Markets

Given the critical role of the Treasury market, over the last decade both the public and private sectors have stepped up their work to improve the resilience of the market.[25] Following the pandemic, the IAWG consolidated official sector efforts into five broad workstreams including:

- Improving the resilience of market intermediation,
- Improving data quality and availability,
- Evaluating expanded central clearing,
- Enhancing trading venue transparency and oversight, and
- Examining effects of leverage and fund liquidity risk management practices.[26]

The changes being implemented as part of these workstreams represent the most significant changes to the Treasury market in decades.

One of the most consequential is the SEC's mandate for central clearing, which could require some $4 trillion in daily transactions to be centrally cleared and is set to reassemble the structure of the Treasury market.[27] The rule will interpose a central counterparty (CCP) between the counterparties of every eligible transaction, making the CCP the buyer to every seller, and the seller to every buyer. Because CCP risk management includes margin, liquidity, and default management processes, counterparty credit risk in the Treasury market should be lower. This should enhance financial stability by improving the willingness of

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[24] BNY. (2025, April 22). A Trio of Treasury Market Issues. Retrieved from https://www.bny.com/corporate/global/en/solutions/capital-markets-execution-services/iflow/short-thoughts/a-trio-of-treasury-market-issues.html

[25] For example, in 2021, the Group of 30 published a set of 10 recommendations to enhance Treasury market resilience. Link: https://group30.org/images/uploads/publications/G30_U.S_._Treasury_Markets-_Steps_Toward_Increased_Resilience__1.pdf

[26] U.S. Department of the Treasury. (n.d.). IAWG-Treasury-Report. Retrieved from https://home.treasury.gov/system/files/136/IAWG-Treasury-Report.pdf

[27] BNY. (n.d.). Central clearing: US Treasury market reassembly required. Retrieved from https://www.bny.com/assets/corporate/documents/pdf/insights/central-clearing-us-treasury-market-reassembly-required.pdf

market participants to continue trading in the Treasury market, even in times of stress when they might otherwise back away from their counterparties for fear of credit risk. Central clearing also should offer improved intermediation by providing some balance sheet relief through netting of offsetting transactions.

However, the rule will require market participants to change the way they interact in the Treasury market, including significant process, systems, legal, and operational changes required to centrally clear their transactions. CCPs also require their members to post margin and make contingent liquidity commitments, which could increase the cost of transacting in the market relative to current conditions, and increase the demand for liquidity to support margin in both normal and stress periods.

Although central clearing is the most significant of the efforts currently underway, the IAWG has already implemented a number of other changes that should support Treasury market functioning. Among other advancements, the IAWG data quality and availability workstream's efforts have improved market transparency through monthly publication of TRACE aggregate statistics on Treasury market activity and through the Office of Financial Research's data collection on non-centrally cleared bilateral repo transactions. The Federal Reserve in 2021 also launched the Standing Repo Facility, providing a liquidity backstop for Treasury and agency securities collateral.[28]

XI. Public and Private Sector Solutions

BNY commends the Task Force for its work in examining the resilience of the Treasury market, particularly against the backdrop of these important market structure changes. The Treasury clearing mandate is only one of several public and private sector solutions that are important to strengthen the safety and liquidity of the market. I would highlight three priorities:

i. Improve Market Safety and Reduce Systemic Risk: Complete Treasury Clearing Implementation in a Timely Manner

We believe timely completion of the central clearing rule for the Treasury market is necessary to reduce counterparty credit risk and improve financial stability. To implement the Treasury clearing mandate, there are several important outstanding operational and regulatory issues that need to be resolved.

- **First, the implementation of mandatory clearing should provide a level playing field for all market participants.** The rule should apply to eligible transactions by CCP members wherever they are conducted and should not allow transactions to

[28] Board of Governors of the Federal Reserve System. (2021, July 28). Statement Regarding Repurchase Agreement Arrangements. Retrieved from https://www.federalreserve.gov/newsevents/pressreleases/monetary20210728b.htm

avoid central clearing simply because they are conducted in non-U.S. jurisdictions or settlement venues.

- **Second, implementation should be limited to Treasury securities transactions and not inadvertently capture non-Treasury trades.** The rule as currently proposed would cover repo trades that are commonly collateralized by baskets of mixed collateral types, including agency mortgage-backed securities, which could raise mortgage borrowing rates.
- **Third, continued industry and regulatory momentum is important in order to promote smooth implementation and avoid delays that lead to excessive transition cost.** In addition to timely resolution of the outstanding scoping issues above, documentation and infrastructure changes to support new access models, including done away clearing, should be made promptly.
- **Fourth, consistent margin practices should be implemented across the ecosystem and market participants.** Today, more than 70 percent of non-centrally cleared bilateral repo trades are transacted with zero margin, which could leave counterparties exposed to undue counterparty credit risk.[29] The clearing rule will require margin from CCP members but does not address the margin paid by non-CCP participants. The gap leaves the market with an unlevel playing field and conditions that result in a commercial race-to-the-bottom in risk management practices.[30] Efforts like those of the Treasury Market Practices Group to promote consistent margin practices should be implemented in conjunction with the clearing rule.[31,32]

ii. Promote Treasury Intermediation: Adjust the Leverage Ratio for Cash and Treasury Securities

A safe and liquid Treasury market depends on the ability of firms to buy and hold U.S. Treasuries, and for banks and dealers to finance and intermediate those trades. These activities can be constrained by bank leverage ratios, especially in times of stress.

All U.S. banks must comply with the Tier 1 leverage ratio (T1LR); the largest U.S. banks must comply with the Supplementary Leverage Ratio (SLR); and the U.S. Global Systemically

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[29] Office of Financial Research. (2023, May 12). Why Is So Much Repo Not Centrally Cleared? Retrieved from https://www.financialresearch.gov/briefs/files/OFRBrief_23-01_Why-Is-So-Much-Repo-Not-Centrally-Cleared.pdf
[30] Id.
[31] Federal Reserve Bank of New York. (2025, February 26). TMPG Proposed Best Practices on Treasury Repo Risk Management. Retrieved from https://www.newyorkfed.org/medialibrary/Microsites/tmpg/files/TMPG-Proposed-Best-Practices-on-Treasury-Repo-Risk-Management.pdf
[32] Commodity Futures Trading Commission. (n.d.). Treasury Cash & Futures Basis Trade Report. Retrieved from https://www.cftc.gov/media/11671/mrac121024_TreasuryCashFuturesBasisTradeReport/download

Important Banks must comply with the Enhanced Supplementary Leverage Ratio (eSLR).[33] Unlike risk-based capital, leverage-based capital is designed to be risk agnostic, meaning banks must hold the same amount of capital for reserves – cash held at the Federal Reserve – and U.S. Treasury securities as they would for more risky assets.

The leverage ratio was designed to be a backstop so that, in the event risk-based capital fell short, banks would still hold sufficient capital against leverage. Given changes in the size of the Treasury market and to monetary policy implementation, however, the leverage ratio has served as the binding constraint for many banks, limiting intermediation in the Treasury market.

In times of stress and volatility, investors often seek the safety of more liquid assets, including Treasury securities and cash. As a result, banks may see an increase in Treasury market financing and trading activity, and growing cash deposits from customers who liquidate or finance assets to build up cash holdings, held by banks in the form of reserves.

However, both activities can be bound by the leverage ratio because reserves and repo financing transactions drive up the assets on bank balance sheets, limiting the ability of banks to intermediate precisely when that intermediation is most needed. Asset purchases by the Federal Reserve aimed at restoring market functioning can further exacerbate leverage ratio constraints by ramping up bank reserve holdings. Recent research indicates that excluding cash and U.S. Treasuries from the SLR and T1LR would increase the ability of banks to intermediate in the Treasury market.[34] The adjustment would also be a more effective and targeted means of supporting Treasury market intermediation than alternatives such as reducing the overall ratio that might instead result in increased activity in riskier and higher-returning asset classes.

iii. Support Market Liquidity: Improve the Ability to Convert Treasury Securities for Cash

Additionally, we support faster, more reliable, and more efficient ways to exchange Treasury securities for cash. A more liquid market can help avoid market dysfunction by giving market participants the ability to easily convert their Treasury holdings to cash, making the need for large-scale central bank intervention more remote.

These solutions include:

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[33]Board of Governors of the Federal Reserve System. (2019, October 10). Requirements for Domestic and Foreign Banking Organizations Tailoring Rule Visual. Retrieved from https://www.federalreserve.gov/aboutthefed/boardmeetings/files/tailoring-rule-visual-20191010.pdf

[34] Bank Policy Institute. (2025, February 6). Treasury market resiliency and large banks' balance sheet constraints. Retrieved from https://bpi.com/treasury-market-resiliency-and-large-banks-balance-sheet-constraints/

- Modernizing the Federal Reserve Bank Discount Window operations, including harmonization of collateral processes with the Federal Home Loan Bank System where many smaller lenders and community banks hold collateral.
- Making it easier to move Treasury securities across collateral platforms to be able to access public and private liquidity sources, such as triparty repo, the FHLB platforms, the Standing Repo Facility, and the Discount Window.
- Expanding readiness and lowering the stigma to use the Discount Window and Standing Repo Facility so that they can be tapped readily.
- Providing additional options to convert Treasury securities to cash throughout the day, including through early morning and intraday repo. In the future, this could also include tokenized Treasury securities and settlement.

Together, these would improve Treasury market resiliency by making it easier to move collateral where it can be most effectively deployed to access liquidity.

XII. Conclusion

BNY remains committed to supporting the U.S. Treasury market and the vital role it plays in the lives of everyday Americans. We look forward to working with the Task Force to provide our expertise and perspective as it looks to bolster both the safety and liquidity of the Treasury market.