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Introduction

Chairman Lucas, Ranking Member Vargas, and distinguished members of the Subcommittee, my name is Laura Klimpel. In my capacity as Managing Director and Head of DTCC's Fixed Income Clearing Corporation (FICC), I am pleased to submit this written statement addressing DTCC and FICC's role in central clearing and the enhancements made to ensure industry readiness for the implementation of the Securities and Exchange Commission's (SEC) U.S. Treasury central clearing expansion. On behalf of DTCC, I appreciate the opportunity to contribute to this significant dialogue.

For over 50 years, DTCC has been the premier post-trade market infrastructure for the global financial services industry. With 20 locations around the world, DTCC, through its subsidiaries, automates and standardizes the processing of financial transactions and in doing so mitigates risk, increases transparency, enhances performance, and drives efficiency for thousands of broker/dealers, custodian banks and asset managers. DTCC is industry owned and governed and as such, the firm has a long history of innovating purposefully, simplifying the complexities of clearing, settlement, asset servicing, transaction processing, trade reporting and data services across asset classes with the goal of bringing increased security, resilience, safety, and soundness to financial markets.

Currently, DTCC is regulated by more than 20 different supervisory bodies globally. In the U.S. alone, different parts of our business are regulated by the Federal Reserve, the SEC, the NYS Department of Financial Services, and for our data repository business, the Commodity Futures Trading Commission.

DTCC owns and operates three FSOC-designated Systemically Important Financial Market Utilities (SIFMUs) as subsidiaries – the National Securities Clearing Corporation (NSCC), the Fixed Income Clearing Corporation (FICC) and the Depository Trust Company (DTC). As SIFMUs, each subsidiary is subject to strictly prescribed risk management standards and heightened oversight by U.S. regulatory authorities. In 2024, DTCC processed over \$3.8 quadrillion in securities across global markets, including US equities, US Treasuries, mortgage-backed securities, mutual funds and exchange-traded funds, insurance products and annuities, and alternative investment products.

DTCC's FICC was established in 2003 to streamline costs and provide DTCC clients with a unified approach to fixed income transaction processing. FICC resulted from the merger of the Government Securities Clearing Corporation (GSCC, founded in 1986) and the MBS Clearing Corporation (MBSCC, founded in 1979), which now function as the Government Securities Division (GSD) and the Mortgage-Backed Securities Division (MBSD), respectively. As an SEC-registered clearing agency and central counterparty (CCP), FICC offers two primary services: GSD, which delivers essential netting, novation, clearing, and settlement services to the government securities market, and MBSD, which provides similar services for the U.S. mortgage-backed securities sector. Furthermore, FICC's designation as a SIFMU and its operation as a covered clearing agency under SEC regulations, require adherence to elevated risk management requirements and make it subject to comprehensive oversight by both the SEC and the Federal Reserve Board. This regulatory framework aims to reinforce risk management, safeguard financial stability, mitigate systemic risk, and promote resilience within the broader financial system.

With the SEC's expansion of central clearing in U.S. Treasury transactions on the horizon¹, FICC stands at the center of a monumental industry initiative. FICC's central clearing services have delivered

¹ 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, Exchange Act Release No. 99149 (Dec. 13, 2023), 89 FR 2714 (Jan. 16, 2024).

significant value to the U.S. Treasury market by maximizing liquidity, efficiency, and maintaining robust risk management. FICC offers a variety of different direct and indirect participation offerings for buy-side and sell-side market participants to allow firms to tailor their access to FICC in the manner that best meets their business and regulatory needs. FICC's numerous access models make it possible to bring a much larger percentage of the market into clearing while maintaining robust risk management standards.

FICC and the whole of DTCC remain dedicated to providing clients with best-in-class central clearing solutions that enhance efficiency and liquidity, foster transparency and competition, and strengthen the overall safety and soundness of the U.S. Treasury market.

SEC's Treasury Clearing Requirements & FICC's Response to the New Rule

Numerous policymakers, academics, and market participants have recognized that greater central clearing of U.S. Treasury transactions would improve the safety, soundness, and efficiency of the U.S. Treasury market while promoting competition, enhancing transparency, and facilitating all-to-all trading. Increased clearing of U.S. Treasury transactions can also reduce clearing costs and credit risk by incentivizing direct participants to submit more balanced portfolios that have lower risk profiles and thus carry lower margin and liquidity risk requirements. Through balance sheet netting and favorable regulatory capital treatment, central clearing has the power to increase dealers' capacity to transact and thereby ameliorate some, though not all, of the constraints on market liquidity.

In December 2023, the SEC issued its expanded U.S. Treasury clearing proposal, which laid out new requirements around the scope of the clearing requirements, certain risk management and access model changes, and implementation timelines. The final rules require significantly larger portions of the U.S. Treasury cash and repo markets, specifically certain eligible secondary market transactions, to be cleared. Following adoption of a final rule and in consideration of industry input, the SEC approved a one-year extension to the initial implementation timeline. As a result, mandatory clearing for cash transactions will now take effect on December 31, 2026, and for repo transactions on June 30, 2027.²

While the SEC's new requirements for expanded central clearing will be an important structural change for all U.S. Treasury market participants, FICC views it as a logical expansion of the services we already offer—clearing primary and secondary market Treasury cash transactions and Treasury repo—and is consistent with FICC's mission. Since its creation, FICC has evolved its approach to meet the needs of a broader and more diverse cross-section of market participants by launching multiple access models, including FICC's very successful Sponsored Membership model for the buy-side.

Although the SEC postponed compliance dates for the implementation of the clearing mandate, FICC still implemented the access model and risk management changes it was required to make by the specified deadline of March 31, 2025, completing all necessary changes on March 24, 2025. Since that time, FICC has been bringing to the markets the benefits of its initiatives around: 1) expanded access models, 2) distinguishing between house and customer activity, and 3) establishing segregated customer margin accounts. Notwithstanding these important achievements, FICC will continue to collaborate with industry partners throughout the extended compliance period for the mandate to proactively address any challenges that may surface.

FICC's Ability to Handle Increased Treasury Activity

Before the SEC introduced its proposed rule to expand central clearing of U.S. Treasury activity, FICC's daily volumes averaged around \$4.5 trillion. By December 2023, following the finalization of the rule, FICC's daily volumes rose to approximately \$7.2 trillion. At present, FICC clears a daily average exceeding \$11 trillion, which encompasses the majority of dealer-to-dealer transactions in the U.S.

² Extension of Compliance Dates for 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, Exchange Act Release No. 102487 (Feb. 25, 2025), 41 FR 11134 (Mar. 4, 2025).

Treasury market, cash transactions in both primary and secondary markets, repo transactions, and an increasing volume of buy-side Treasury cash and repo activity.

FICC has consistently demonstrated its ability to manage volatility within the U.S. Treasury market, reflecting robust and effective risk management and operational resiliency. Amidst heightened market volatility in April of 2025, FICC reached, at the time, an all-time high of over \$11 Trillion in U.S. cleared transactions. Even in times of market stress, FICC's ability to effectively process historically high volumes reaffirms the strength of its clearing model in safeguarding the integrity of the market. Since then, FICC has continued to reach historic heights, most recently on October 30 when FICC cleared \$12.66 Trillion in activity.

FICC is Leading Market Innovation

FICC is recognized for its industry leadership and ongoing commitment to client-focused innovation. As the Treasury Clearing mandate approaches, FICC has prioritized the following enhancements to ensure compliance with industry standards and facilitate effective preparation.

- **Capital Relief:** Since the 2008-2009 financial crisis, regulatory capital standards such as Basel II, Basel III, and Dodd-Frank have imposed stricter requirements on dealers' balance sheets. Central clearing alleviates certain balance sheet constraints in the U.S. Treasury market. By novating transactions to FICC, central clearing provides dealers with the opportunity to net their centrally cleared repo positions of identical tenor from a balance sheet perspective. This process enables them to optimize capital allocation and enhance funding capacity within the market. Additionally, FICC's central clearing framework supports clearing firms in efficiently facilitating client activity on a "done-away" basis, thereby promoting greater capital efficiency.

FICC and the industry have been focused for over a year on ensuring appropriate accounting treatment for all repo activity cleared in FICC's newly enhanced Agent Clearing Service, whether it be done on a "done-with" basis (where the execution counterparty to the buy-side and the clearing member are the same legal entity) or on a "done-away" basis (where the execution counterparty and the clearing member are different firms). The accounting treatment of repo activity cleared through FICC's other buy-side access model, the Sponsored Service, is already well established and battle tested. Furthermore, we are pleased to report that certain accounting conclusions for "done-away" and "done-with" repo activity in the Agent Clearing Service have recently been reached by Securities Industry and Financial Markets Association's (SIFMA) Accounting Committee in consultation with the Head Office of each of the Big 4 Accounting Firms.

- **Sponsored Service:** The Sponsored Access model offered by FICC exemplifies its commitment to delivering market innovations. FICC's Sponsored Service allows approved Netting Members to sponsor eligible legal entities as Sponsored Members into membership at the GSD of FICC. The Sponsored Service also allows "done-away" and "done-with" activity as well as both segregated and non-segregated margin posting.

Over the last decade, FICC has expanded the Sponsored Service on multiple occasions to facilitate the ability of more participants to submit a greater variety of transactions for clearing. Specifically, FICC has expanded eligible Sponsoring Members to include any direct participant that satisfies certain financial requirements. In addition, FICC has modified the service to facilitate the submission of term transactions and transactions with haircuts. FICC has also developed the Sponsored GC Service, which allows participants to submit for central clearing tri-party general collateral repos. This last development facilitates access to clearing for participants that may be limited in terms of their operational capability to make cash mark-to-market payments or that may engage in repos through a tri-party framework.

- **Agent Clearing Service:** Following the SEC's adoption of amendments to standards governing covered clearing agencies, FICC undertook a comprehensive review to assess whether its existing direct and indirect models offer market participants flexible access to FICC's clearance and settlement services, while upholding robust risk management and regulatory compliance. In response to market feedback obtained during this process, FICC proposed consolidating its

correspondent clearing and prime brokerage services under a unified designation: "Agent Clearing Service (ACS)". This modification allowed Netting Members and their clients to more effectively identify the parallels between FICC's indirect access model and the agent clearing models employed by futures commission merchants (FCMs). As a result, it facilitated the recognition of ACS as a viable "done-away" solution and further extended the capabilities to include done-with activity as well as both segregated and non-segregated margin posting.

- **Tri-party Repo Enhancements:** FICC is committed to increasing Treasury repo activity within central clearing by introducing additional improvements to its Sponsored and Agent Clearing Services. FICC recently submitted two proposed rule filings for enhancements that, pending SEC approval, would effectively resolve the double margining concern and reinforce the economic value of central clearing with FICC, prior to the clearing mandate taking effect.
 - **Sponsored Collateral in Lieu:** The proposed Sponsored GC Collateral in Lieu Service—which is now under review with the SEC—is an innovative enhancement to FICC's Sponsored GC service that should resolve the double margining issue for lenders. If approved, FICC would take a targeted lien over all collateral sold to the cash investor's dedicated Collateral in Lieu tri-party account. The service is uniquely designed to leverage the haircut typically posted by dealers to money market funds and other cash investors in tri-party via a CCP lien that is applied "in lieu" of both a Sponsoring Member guaranty of client performance and posting margin to the CCP (in most circumstances). Operationally, Collateral in Lieu trades would be submitted, settled and novated the same way as Sponsored GC trades are handled today, however, this enhancement would allow money market funds to use assets that are already in tri-party to be "in lieu" of separate margin that would otherwise be posted for those funds. This could potentially make the Sponsored model even more margin-efficient for clients.
 - **ACS Tri-party:** The proposed ACS Tri-party Service—which is also now under review with the SEC—would enable an Agent Clearing Member to submit for clearing eligible tri-party repo transactions executed between its Executing Firm Customer and either the Agent Clearing Member itself ("Done-with"), or another Government Securities Division (GSD) Netting Member or its client ("Done-away"). The proposed ACS Tri-party Service contains certain features, including net margining of positions across Executing Firm Customers, a legal framework similar to the U.S. futures clearing model, a more streamlined onboarding process, and intermediation sufficient to allow perfection of security interests without financing statements, that can make it easier and less expensive for direct participants to submit their customers' transactions, including done-away transactions, to FICC for clearance and settlement.
- **End User Cross-Margining:** Cross-margining is critical to optimize collateral usage, reduce capital requirements and enhance overall market efficiency. FICC continues to focus on additional opportunities to further improve margin efficiency, including evaluating a broader expansion of cross-margining opportunities.

Cross-margining between FICC-cleared cash and repo activity and CME-cleared futures has been available since 2004 for common members of both CCPs, as well as for pairs of affiliated members. FICC and CME Group are working together to extend this program to end-user customers of dually registered broker-dealers ("BDs") and futures commission merchants ("FCMs") that are common members of FICC and CME Clearing, providing such end-user customers access to capital efficiencies available when trading U.S. Treasury securities and CME Group interest rate futures that have offsetting risk exposures. Implementation of cross-margining for end-user customers ("End-User XM"), which remains subject to regulatory review and approval, should encourage greater utilization of central clearing, thereby facilitating systemic risk reduction.
- **Global Investor Community:** FICC has always been a global institution with a significant percentage of our Netting Members population that are foreign banks, and some foreign broker dealers as well. FICC currently clears and settles for direct members from across 35 approved jurisdictions and sponsored members from across 51 approved jurisdictions and stands ready to

service additional jurisdictions and entities that may be interested in using central clearing because of the SEC requirements.

- **Risk Management:** As a SIFMU and as a SEC-covered clearing agency, FICC is required to meet prescribed risk management standards and heightened oversight by the SEC and the Federal Reserve Board. Our member-owner governance structure means that we measure performance of the CCP in terms of efficiency and risk management, as opposed to short-term considerations like quarterly financial returns or maximizing shareholder value above all else. Additionally, FICC's practice of intraday margining limits the exposure to market movements, trading activity and settlements. This promotes robust risk management, safety and soundness, reduces systemic risk and supports the stability of the broader financial system.

DTCC launched several new risk tools in 2024. What makes these new tools unique is that they are not just for the exclusive use of clients. For the first time, DTCC has created risk tools for non-members, potential members, and the whole industry. As firms carefully consider their best path forward to comply with the SEC rule, these risk tools and calculators can provide the necessary transparency and support to help firms evaluate the costs, benefits and margin risk savings associated with different types of membership and access models.

Conclusion

DTCC has supported the financial industry for decades, often without much fanfare, but the benefits it provides to investors, companies and the global markets are tremendous. By virtually any measure, the United States has the most liquid, efficient, and cost-effective financial markets in the world. The critical role that DTCC plays in the market may not be well known outside the financial services industry, but it fundamentally benefits all participants in capital markets, ranging from the largest public companies to main street investors.

The expansion of U.S. Treasury Clearing is a significant industry-wide effort that promises to deliver critical benefits to the industry, including increased transparency and reduced risk. FICC will continue to work closely with our clients and key stakeholders on ensuring safe, smooth and successful implementation in 2026 and 2027.

DTCC is honored to contribute to this important discussion and applauds this Subcommittee for taking a leadership role on this issue. We look forward to continuing to work with Congress as they explore these important issues, and I look forward to answering your questions today.