

Testimony of
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House Financial Services Committee
Task Force on Monetary Policy, Treasury Market Resilience and Economic Prosperity

Hearing: Examining Primary Dealers and Balance Sheet Constraints
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The Independent Dealer and Trader Association (“IDTA”) appreciates this opportunity to testify before the Task Force on Monetary Policy, Treasury Market Resilience and Economic Prosperity on the Primary Dealer program and how well it is operating to achieve robust liquidity for the US Treasury securities and Repurchase Agreement (“Repo”) markets.

Background and Summary

My name is James Tabacchi, and I appear before you today as the Chairman of the IDTA, which is an association focused on the US Treasury securities and Repo financing markets. In addition to my role with the IDTA, I am also the CEO of South Street Securities Holdings Inc., which I co-founded in 2000 as an independent broker dealer that operates several business lines, which are designed to provide liquidity and balance sheet capacity to the capital markets.

Prior to South Street, I was with Citicorp/Citibank for 20 years where in my latest years I served as Treasurer of Citicorp Securities, Citicorp’s Section 20, with responsibility for the balance sheet of Citicorp’s \$50 billion capital markets business, as well as Managing Director of their Primary Dealership and Securities Finance businesses. I also currently serve on the Board of Directors of the Depository Trust and Clearing Corporation (“DTCC”) and on the Advisory Council of the Bank of New York’s Government Securities Services business.

When this Task Force met several months ago, the IDTA filed a written submission which is attached to my written testimony. In it we propose specific actions to improve the breadth and depth of the US Treasury and Repo markets in a manner that will broaden participation in the markets and reduce concentration of systemic risk that currently exists. Specifically, we had previously recommended that (1) access to the standing repo facility be broadened to all Tier 1 netting members of FICC and to FICC itself, and (2) there should be more non-bank registered broker dealers designated by the Federal Reserve Bank of New York (“FRBNY”) as Primary Dealers of US government securities. My testimony today will provide our view on the current markets and explain the specific actions we have recommended.

Treasury Market Participants

While the headlines are often focused solely on the largest financial institutions in the Treasury market, the middle market dealer community and many other participants in the US Treasury and Repo markets play an important role. The sheer size of the market still requires significant capital for broker dealers to provide clients with efficient trade execution and clearing, but an important

distinction is that the members of the IDTA are not systemically important institutions that challenge the overall financial stability of the markets in times of stress. IDTA members are often countercyclical providing liquidity and balance capacity at times when the largest systemically important financial institutions (SIFIs) have balance sheet constraints during certain times of the year (e.g., quarter end). This means that during such times, it is the middle market firms who provide critically important liquidity to the Treasury and Repo markets.

Since the IDTA's formation in 2017, we have been outspoken on the state and condition of the US Treasury and Repo markets. As a group of middle-market firms, we have seen a reduction in competition in these markets and an increase in concentration of risk over the last several years. These developments affect liquidity in the secondary market for US Treasury securities, which, as the benchmark instrument across US and global markets, affects so much of the US and global economies, as well as the important Treasury and Repo markets which fund and finance literally trillions of dollars of overnight transactions each and every day.

In December 2023, the Securities Exchange Commission approved a rulemaking requiring mandatory central clearing of US Treasury and Repo markets. While central clearing is sensible to pursue, how such a mandate is implemented is critically important to ensuring sufficient liquidity in these critical markets, the breadth and competitiveness of the market, and how much risk is concentrated among the largest systemically important institutions. The IDTA remains concerned that the policies adopted in 2023 are being implemented in a manner that makes it more difficult for participants other than the largest institutions to benefit from central clearing. Also attached to my testimony is correspondence the IDTA sent to SEC Commissioner Mark Uyeda when he was acting SEC Chair about these Treasury clearing implementation issues. Commissioner Uyeda has been tasked by SEC Chair Atkins with heading up this area at the SEC.

Market Liquidity Risk

The US Treasury market is, and, frankly, must remain, the largest and most liquid financial market in the world. Repos are functionally short-term, secured cash loans, where a party sells securities to another party for cash with an agreement to repurchase them at a higher price as soon as overnight. In the Repo market, because of backing of the full faith and of the United States, Treasury securities are the single most utilized collateral for transactions. The Repo market is critical for providing liquidity to not only US markets, but to global financial markets. Market reforms and regulations should be structured, and more importantly *implemented*, in a manner that increases, not decreases, market liquidity and competition.

Nevertheless, liquidity continues to be a key fragility in the Treasury and Repo markets. The Repo market suffers from high periodic stress, especially at fiscal quarter- and year-end. In September of 2024, for example, quarter-end pressures resulted in greater illiquidity, and the Secured Overnight Financing Rate ("SOFR") experienced abnormal spikes.¹ This Task Force previously

¹ Davide Barbuscia & Gertrude Chavez-Dreyfuss, *Key US short-term rate surges amid month-end turbulence*, REUTERS (Oct. 1, 2024), <https://www.reuters.com/markets/rates-bonds/key-us-short-term-rate-surges-amid-month-end-turbulence-2024-10-01/>.

held a hearing in May to discuss the volatility in the Treasury market in April of this year.² While volatility has not yet approached peak levels like in 2019 and 2020, it is clear that Treasury market volatility, as well as the liquidity issues contributing to it, can and should be addressed through concrete actions that will broaden and deepen participation in these important markets.

The Repo market has also been materially affected by a change in recent years in who buys and now owns Treasury securities, resulting in greater volatility. In the past, there was a larger contingent of foreign government and sovereign bond funds involved in purchasing Treasury securities. As those buyers have stopped or slowed their buying of Treasury securities, professional trading firms and hedge funds, including foreign leveraged funds, have picked up the slack. However, professional trading firms are more reliant on the Repo markets to finance such transactions. They are distinct in their trading patterns in volatile markets and are traditionally less patient in adding to or even holding an existing position while the market falls. Furthermore, such investors are more reliant on the Repo markets to finance such transactions.

Findings from staff at the Board of Governors of the Federal Reserve System (“FRB”) have supported this conclusion. On October 15, 2025, FRB staff published an article highlighting a “massive increase in Cayman Islands hedge funds exposures to US Treasury securities over the last two years, corresponding to a simultaneous surge in hedge funds’ Treasury cash-futures basis trade positions”³ Between 2018 and 2024, leveraged funds’ gross short positions in Treasury futures have increased from a weekly gross of about \$400 billion, to a peak of \$1.4 trillion—an over three times’ increase in six years.⁴ See the chart below, reproduced from the FEDS Note article.

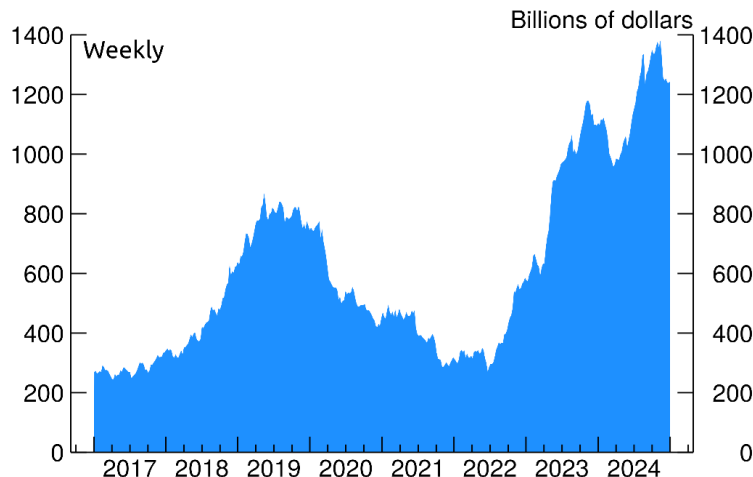


Figure 1. Leveraged Funds’ Gross Short Positions in Treasury Futures

² Lucas: *A Highly Liquid And Resilient Treasury Market Is Fundamental To The Global Economy*, HOUSE FIN. SERVS. COMM. (May 15, 2025),

<https://financialservices.house.gov/news/documentsingle.aspx?DocumentID=409730>.

³ Daniel Barth et al., *The Cross-Border Trail of the Treasury Basis Trade*, BD. OF GOVERNORS OF THE FED. RESERVE SYS. (Oct. 15, 2025), <https://www.federalreserve.gov/econres/notes/feds-notes/the-cross-border-trail-of-the-treasury-basis-trade-20251015.html>.

⁴ See *id.*

Interestingly, the majority of these increases seem to be “driven by funds domiciled in the Cayman Islands,” with Cayman-domiciled hedge funds’ Treasury security holdings increasing by *\$1 trillion* since 2022.⁵ This is commensurate with a massive growth in Cayman-domiciled hedge funds’ net Repo borrowing (“defined as Repo borrowing minus Repo lending”) which has also increased from a peak of about \$700 billion in 2019 to a peak of about \$1.6 trillion in 2024.⁶

Much of the overall increase in hedge fund leverage has been driven by the largest banks minimizing or eliminating “haircuts.” Haircuts are designed to cap excessive hedge fund leverage. Unbridled leverage has proven to be dangerous to any market and certainly is to a market the size of the US Treasury market. The members of the IDTA have always advocated standardized minimal haircuts that should be implemented across the board for all central counter parties (“CCPs”) and their participants and sponsors.

Additionally, the Treasury Market Practices Group (“TMPG”), which operates under the coordination of the Federal Reserve Bank of New York (“FRBNY”), published a report in May 2025 entitled “Best Practices for Treasury, Agency Debt, and Agency Mortgage-Backed Securities Markets.”⁷ In the section of the report addressing “Risk Management,” the report and recommendations specifically recognized the application of “haircuts (or margin) on the value of securities” as one risk management best practice that “taken as a whole, should protect against counterparty credit risk, as well as the liquidity and market risks of the transaction.”⁸

There is another interesting recent development in the US Treasury market that is, right now, more interesting than concerning, but it is important that this Task Force is and remains fully informed: the historic passage of the GENIUS Act. We have already seen the impact of this new law in the short-term Treasury bills market noting increased demand by issuers of stablecoins which must be backed by high-quality, short-term liquid assets. The current amount of outstanding stablecoins is about \$300 billion, which is still a relatively small percentage of the overall \$6.6 trillion Treasury Bills market. As there are wide estimates of the growth of the stablecoin market from about \$2 trillion to as high as \$4 trillion, it will be important to stay on top how new demand for these short-term instruments affects the overall US Treasury and Repo market.

Primary Dealers

But before there is a secondary market, the US Treasury must access the “primary” market on a regular basis to fund historical and ongoing debt of the US Government. There are literally auctions of Treasury securities of various maturities every week of the year. Most of these are for short term issuances called “bills,” but there are also frequent auctions in 2-, 5-, 7- and 10-year notes and 20- and 30-year bonds and major quarterly refunding issuances. When an auction occurs, the US Treasury and the FRBNY, who manages the Federal Reserve’s “open market” desk, depend on broker dealers who have been designated as primary dealers by the FRBNY. Primary dealers have certain eligibility requirements, including minimum Tier 1 capital and a requirement that all

⁵ *Id.*

⁶ *Id.*

⁷ Treasury Market Practices Group, Best Practices for Treasury, Agency Debt, and Agency Mortgage-Backed Securities Market: May 2025 (2025), <https://www.newyorkfed.org/medialibrary/Microsites/tmpg/files/TMPG-best-practices-May-2025.pdf>.

⁸ *Id.* at 7.

primary dealers “maintain a share of Treasury market making activity of at least 0.25 percent.” With an average overall trading volume of \$1 trillion, that requirement is \$2.5 billion of daily trading volume to qualify as a primary dealer. This by definition limits the current make up of designated primary dealers to only the largest firms in the world.

Primary Dealers, who are the trading counterparties of the FRBNY in its implementation of monetary policy, play an important role in Treasury debt management.⁹ They are expected to “consistently and competitively” participate in open market operations, and are expected to participate in Treasury operations conducted by the FRBNY’s Trading Desk.¹⁰ Furthermore, they are eligible to participate in the FRBNY’s Standing Repo Facility (“SRF”) and Overnight Reverse Repo facility, which have become important sources of liquidity during times of Treasury market volatility and stress.¹¹

The list of Primary Dealers has historically been dominated by the largest banks and large non-bank broker dealers and, since 2008, most of the largest broker dealers are now a part of bank holding companies.¹² However, while the size of numerous Primary Dealers has increased, the overall number of Primary Dealers has decreased: there were 41 Primary Dealers in 1990, compared to 25 today.¹³ The below graph demonstrates the recent history of the number of primary dealers as compared with the size of the US Federal debt outstanding. Yet larger depository institutions are the counterparties *least* likely to increase liquidity at fiscal quarter and year end, precisely when the Treasury and Repo markets are most in need of liquidity. Balance sheet considerations may limit these counterparties’ risk appetite and lead to funding and liquidity bottlenecks during periods of high stress. The prevalence of banks and bank-affiliated broker dealers in the Primary Dealers category represents not only a concentration risk, but a liquidity risk, despite the fact that Primary Dealers are supposed to provide market liquidity.

⁹ Primary Dealers, FED. RESERVE BANK OF N.Y. (last visited Oct. 27, 2025), <https://www.newyorkfed.org/markets/primarydealers.html>.

¹⁰ *Id.*

¹¹ *See id.*

¹² Eric S. Rosengren, *Risk of Financial Runs – Implications for Financial Stability*, FED. RESERVE BANK OF BOSTON (Apr. 17, 2013), <https://www.bostonfed.org/news-and-events/speeches/risk-of-financial-runs-ndash-implications-for-financial-stability.aspx>.

¹³ *See Historical Primary Dealers Lists*, FED. RESERVE BANK OF N.Y. (last visited Oct. 27, 2025), https://www.newyorkfed.org/medialibrary/media/markets/Dealer_Lists_1960_to_2014.xls.

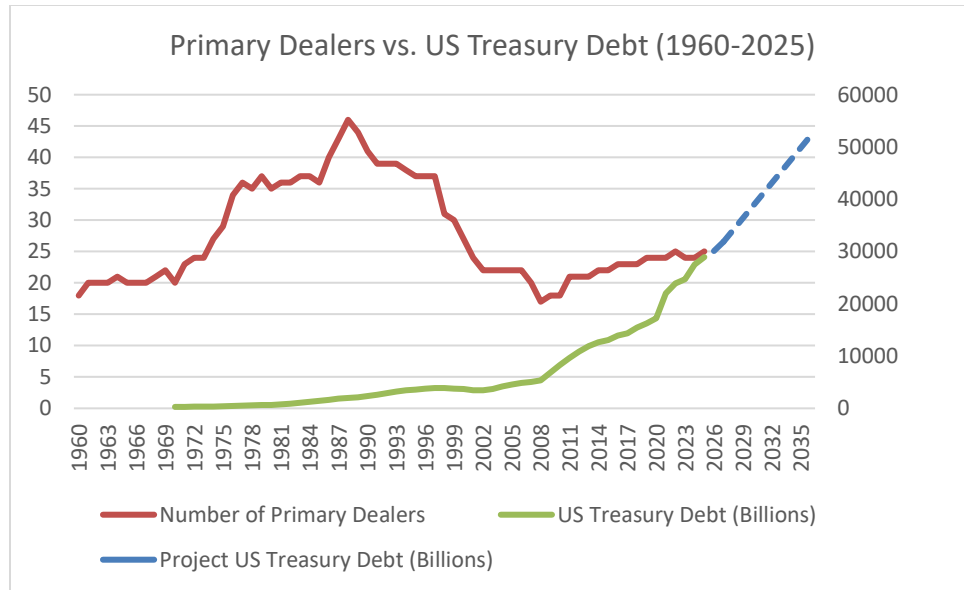


Figure 2. Primary Dealers And Publicly Held US Treasury Debt

Non-bank independent broker dealers are not as constrained by balance sheet considerations during these periods of stress that the larger depository institution counterparties experience. Independent broker dealers are both willing and able to provide liquidity in these scenarios and can help prevent bottlenecks in funding in the Repo market, such as those that occurred in April 2025, September 2024, and September 2019.

Lastly, in mid-2024, the Congressional Budget Office projected that at the current pace of annual Federal deficits, the amount of US Federal debt that will need to be financed through further issuance of Treasury securities will exceed \$50 trillion over the next several years.

It therefore does not seem like a bold suggestion that the US Treasury and FRBNY should expand the Primary Dealer program to include more non-bank registered broker dealers. This measure would decrease the concentration risk in relying only on large depository institutions to implement monetary policy and ensure that a broader range of diverse and *competitive* participants, more accurately reflecting the Treasury market as a whole, is ready to maintain more consistent and deeper liquidity. This would also increase access to the SRF and the Overnight Reverse Repo program to participants who are more willing to make use of these facilities during times of stress, which is exactly when these facilities are designed to be used.

Perhaps as an initial action, Treasury and FRBNY could reconstitute a program utilized many years ago that allowed the designation of certain dealers who were smaller and would not meet all of the full requirements of a primary dealer to operate as an “aspiring primary dealer.” Such an action would immediately increase the number of dealers participating in the market and broaden demand for such auctions.

Thank you for your attention to this matter and I look forward to answering any questions that you have.