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Testimony of Jeff Cranston, US Head of Corporate Strategy, Optiver
Task Force on Monetary Policy, Treasury Market Resilience, and Economic Prosperity
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Chairman, Ranking Member, and members of the Committee,

Thank you for the opportunity to testify.

My name is Jeff Cranston, and I represent Optiver, a global market maker providing liquidity across all major asset classes, including on-the-run U.S. Treasury securities as well as U.S. Treasury and SOFR futures and options.

My testimony will focus on how derivatives support Treasury market liquidity, how Treasury clearing is being implemented in practice, and how bank capital and balance sheet constraints influence clearing capacity and overall market function.

The U.S. Treasury market is one of the most important financial markets in the world. It provides the primary mechanism through which the federal government funds itself. Treasury securities serve as a primary benchmark of safe and liquid assets for banks, money market funds, pension plans, and central banks, enabling them to manage liquidity, secure financing, and store value. Maintaining a resilient and liquid Treasury market is critical to economic stability and to preserving the U.S. dollar's role as the world's reserve currency.

Derivatives play a central role in supporting liquidity, enabling the transfer of risk, and promoting efficient price discovery and more orderly price movements in the Treasury market.

In practice, price discovery often occurs first in Treasury futures, which trade nearly around the clock. As a result, Treasury futures are often where economic data or shifts in market sentiment are first reflected. Movements in futures markets are then transmitted to the underlying cash Treasury market through arbitrage and hedging activity, helping ensure efficient price formation and close linkage across markets.

Treasury options, particularly those listed at CME, play an important role in managing volatility and large market moves. Options allow market participants to hedge non-linear risks without needing to transact directly in the underlying cash market, which helps reduce abrupt adjustments in Treasury prices during periods of stress.

As a market maker, we provide continuous liquidity across these derivatives markets, enabling participants to enter and exit positions efficiently and manage risk. This supports tighter spreads, deeper markets, and more efficient price formation.

Swaps are also an important part of this ecosystem. SOFR has become the primary benchmark for U.S. dollar interest rate swaps and is based on overnight borrowing rates using U.S. Treasuries as collateral in the repo market. As a result, SOFR swaps are directly linked to Treasury funding markets. Investors use swaps to hedge Treasuries and trade the spread between swap rates and Treasury yields.

Taken together, these markets form a highly interconnected system where liquidity is shared across instruments and transmitted through arbitrage and risk transfer.

A recent Chicago Fed study, *"How the U.S. Treasury Futures Market and the Basis Trade Could Be Affected by the Treasury Clearing Mandate: Part 1—A Primer"* (Chicago Fed Letter No. 516, 2026), finds that deeper and more liquid Treasury futures markets improve price discovery, broaden participation, and reduce the term premium investors demand. In turn, this can support more efficient government borrowing. The study also highlights how the interaction between futures and cash markets creates a reinforcing cycle, where enhanced liquidity in derivatives markets strengthens the functioning of the underlying Treasury market.

As part of this broader effort to strengthen the Treasury market, participants are now in the process of implementing the SEC's clearing mandate across both cash and repo transactions. The market is currently in a transition phase, moving from a largely bilateral structure to one where more activity flows through central clearing, and several key components of that structure are still being built out.

Central clearing provides several important benefits. It reduces counterparty credit risk and broader financial stability risk by replacing bilateral exposures with a centrally managed framework. It enables multilateral netting, which reduces gross exposures and lowers operational and settlement risk. It supports standardized margining and risk management practices, and it provides a structured framework for managing defaults, which is particularly important during periods of market stress.

While implementation is underway, it is important to recognize that the scope of the clearing mandate differs across markets. In cash Treasuries, clearing requirements are more narrowly focused on intermediation activity, while in repo, the scope is broader and more directly addresses the funding layer of the market. As a result, a meaningful portion of cash Treasury trading is expected to remain outside of central clearing even after the mandate is fully implemented.

This distinction is relevant when considering how market structure may evolve over time. Treasury futures markets, which are centrally cleared, have demonstrated strong liquidity and resilience during periods of stress. These markets operate on central limit order books that support broad, all-to-all participation, enabling deep liquidity and efficient price formation. As more activity moves into central clearing, it may naturally support similar developments in cash Treasury markets over time, including broader participation in clearing and more centralized liquidity formation. The extent to which this occurs will depend on how clearing continues to be implemented and ultimately adopted.

One of the most important areas currently under development is how participants access clearing. Sponsored access models are already in place and have expanded participation, but they remain dependent on specific sponsoring relationships, can limit portability across clearing relationships, and may reduce opportunities for margin optimization. They also do not fully separate execution from clearing. At the same time, the market is developing agency-style clearing models, which are intended to provide a more standardized framework similar to futures, and support a clearer separation between trading and clearing relationships. Agency models may improve how activity is processed across participants and help enable more flexible execution. These developments are closely linked to

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the ability to support done-away clearing, which allows participants to execute with one counterparty and clear through another. While the structural framework is improving, the ability to scale done-away clearing relies on clearing members' balance sheet, which may remain a constraint on overall capacity.

Margin efficiency is also central to implementation. Many participants manage risk across futures, cash, repo, and interest rate swaps, and effective cross-margining is necessary to reflect the true economic risk of those portfolios. There has been meaningful recent progress in this area. Cross-margining between Treasury futures at CME and centrally cleared Treasury positions at FICC was recently approved to apply at the customer level. This is an important step that can improve capital efficiency and support liquidity. At the same time, similar capabilities across products and clearing agencies are still being implemented, and the focus now is on ensuring these benefits are broadly available and can be implemented at scale.

In the repo market, implementation is more complex. Repo involves not just trading, but also funding and collateral management, often on a daily basis. Extending clearing to repo requires infrastructure that works for dealers, hedge funds, and cash lenders such as money market funds. Ensuring that these participants can access clearing efficiently remains an important area the market is continuing to work through.

The introduction of additional clearing agencies is also an important development. Additional agencies can promote innovation, competition, and resilience in clearing services. At the same time, the market is working through how to preserve netting efficiency and maintain strong liquidity as activity may be distributed across clearing agencies. In particular, there is a question around how market structure evolves in the interdealer broker market. If multiple clearing agencies lead to separate pools of liquidity or distinct central limit order books, this could reduce liquidity formation and impact price discovery. Maintaining deep, centralized liquidity while introducing competition remains an important balance.

These implementation challenges are closely linked to clearing capacity and the role of bank capital and balance sheet. Market participants rely on futures commission merchants and prime brokers to access clearing and finance positions. These institutions provide the balance sheet and capital required to support client clearing activity.

Recent updates to bank capital rules, including both the Basel re-proposal and the recalibration of leverage requirements, are a positive step and should help reduce some of the pressure on balance sheet-intensive activities such as Treasury intermediation and repo financing. However, as more activity moves into clearing, demand for capacity is increasing, and whether existing access models are sufficient—and if clearing capacity can scale alongside them—remains a key question as implementation of the clearing mandate progresses alongside the prudential rulemaking process.

In closing, derivatives markets—futures, options, and swaps—play a central role in supporting Treasury market liquidity by enabling continuous price discovery and efficient risk transfer. The transition to expanded central clearing is underway and has the potential to strengthen the market, but its success will depend on how effectively key implementation challenges are addressed, particularly around access models, margin efficiency, clearing capacity, and the interaction between clearing structure and market liquidity.

Thank you, and I look forward to your questions.