

**MEMO# 35683**

April 17, 2024

# **Subcommittee Recommendations from Recent Meetings of the CFTC's Global Markets and Market Risk Advisory Committees**

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TO: Derivatives Markets Advisory Committee RE: Subcommittee Recommendations from Recent Meetings of the CFTC's Global Markets and Market Risk Advisory Committees

The Commodity Futures Trading Commission's Global Markets Advisory Committee (GMAC) and Market Risk Advisory Committee (MRAC) each held public meetings on March 6 and April 9, respectively.[\[1\]](#) Reports and recommendations from each meeting are summarized below.

## **Global Markets Advisory Committee**

At the March 6 GMAC meeting, the Committee received reports and recommendations from its Subcommittees on Global Market Structure, Technical Issues, and Digital Asset Markets regarding various workstreams. The meeting also included a keynote address by Financial Stability Board Secretary General John Schindler and a panel discussion on the Basel III Endgame Proposal and perspectives from derivatives market participants. The reports and recommendations issued by the Global Market Structure, Technical Issues and Digital Asset Markets Subcommittees are summarized below.

### **Recommendations of Global Market Structure Subcommittee**

The Global Market Structure Subcommittee issued two recommendations to the Commission: (1) include US Treasury exchange-traded funds (ETFs) as eligible initial margin (IM) collateral by aligning with the SEC's guidance to treat ETF shares as redeemable securities under the Investment Company Act of 1940 and provide clarity that certain ETFs would qualify as eligible IM collateral under the margin requirements for uncleared swaps (Margin Rules); and (2) work with US prudential regulators to acknowledge and align their Margin Rules to ensure consistent collateral standards and acceptance by swap dealers.[\[2\]](#)

The Subcommittee noted the following key advantages to include US Treasury ETFs as eligible IM collateral:

- US Treasury ETFs provide a diversified exposure to a portfolio of US Treasury securities in a single instrument, which can help mitigate the idiosyncratic risk associated with an individual bond.
- Fixed income ETFs, including US Treasury ETFs, played a crucial role in transforming the bond market by promoting electronification, algorithmic bond pricing and portfolio trading.
- Fixed income ETFs empower investors to gain instant access to hundreds of bond market exposures at transparent prices with extra layers of liquidity from secondary on exchange trading.
- During many historic volatile trading sessions, certain US Treasury ETFs have acted globally as "shock absorbers," providing real-time prices and liquidity. Most notably, during the bond market volatility in 2020, volatility increased in US Treasury bonds as dealers' balance sheets were constrained. During this time, many US Treasury ETFs traded at tighter bid-ask spreads than their portfolio of underlying bonds.
- Allowing US Treasury ETFs as collateral could increase the efficiency of the collateral management process. For a significant number of market participants or covered swap entities, it may be simpler and more cost-effective to post shares of ETFs that hold qualifying assets like US Treasuries as eligible collateral, rather than posting US Treasuries directly.

The Subcommittee noted that for the reasons mentioned above, allowing US Treasury ETFs as IM collateral could not only help safeguard covered swap entities from counterparty default, but also help reduce the overall risk in the financial system and limit the potential for contagion arising from uncleared swaps. In addition, the Subcommittee urged the Commission to contemplate the principles established by BCBS-IOSCO to permit a broader range of eligible collateral and address the potential volatility of such assets through the implementation of suitable haircuts. Further, the Subcommittee argued that by broadening the spectrum of liquid assets that can be posted as uncleared margin to include US Treasury ETFs would more closely align with central clearing practices, as CCPs are beginning to accept certain US Treasury ETFs as IM collateral for cleared derivatives.

A motion to adopt the recommendation was approved and will be presented to the Commission for consideration.

### **Recommendation of Technical Issues Subcommittee**

The Technical Issues Subcommittee recommended a publication of a resource guide for the transition to T+1 securities settlement. The guide provides an overview of the transition, including which markets are affected and what products are in scope, highlights the benefits of accelerated settlement, notes how market participants will be affected, including specific impacts on industry products and processes, as well as cross-border impacts.[\[3\]](#) A motion to adopt the recommendation was approved and will be presented to the Commission for consideration.

### **Recommendation of Digital Asset Markets Subcommittee**

The Digital Asset Markets Subcommittee recommended publication of a digital asset taxonomy, which the Subcommittee noted would provide a clear, consensus-driven approach to classifying assets and the functions they serve and is intended to be used as an aid to help draft future legislation, regulations, policies, procedures, and other situations where a common approach to understanding digital assets is needed.[\[4\]](#) A motion to adopt the recommendation was approved and will be presented to the Commission for

consideration.

## **Market Risk Advisory Committee**

At the April 9 MRAC meeting, the Committee received reports and recommendations from its Subcommittees on CCP Risk and Governance, Future of Finance, and Market Structure, as well as a presentation from its Subcommittee on Climate-Related Market Risk. The meeting also included presentations on the US Treasury cash-futures basis trade and updates on the block implementation and post-trade risk reduction workstreams. The reports and recommendations issued by the CCP Risk and Governance, Future of Finance, and Market Structure Subcommittees are summarized below.

### **Recommendations of CCP Risk and Governance Subcommittee**

The CCP Risk and Governance Subcommittee shared a report and issued several recommendations to Commission on behalf of the Recovery and Resolution workstream. The Subcommittee noted that the recommendations could be used by the Commission to inform the development of final rules on DCO resilience, recovery, and orderly wind-down. The recommendations included:

1. Implementation of Supervisory Stress Tests
  - a. Require supervisory stress testing of credit and liquidity risks (including reverse stress testing), as well as operational and other non-default risk stress testing, for all DCOs.
  - b. Require the results of supervisory stress tests be made available to the public, in a level of detail to be determined by Commission staff, within a reasonable time after the stress tests have been concluded.
  - c. Require stress testing annually, though Subcommittee members representing DCOs recommended the frequency of reverse stress tests be determined by Commission staff.
2. Recovery Scenarios and Analysis
  - a. Amend CFTC Regulation 39.39(c)(2) to require that DCOs conduct scenario analysis that includes extreme but plausible scenarios that could trigger recovery or wind-down.
  - b. Require systemically important DCOs (SIDCOs) include in their plans an assessment of (i) the financial resources and tools available in the event of recovery and wind-down, and (ii) how they would assess the scenarios identified that could trigger recovery and wind-down.
3. Non-default Losses
  - a. Retain Commission proposal to require a DCO that is neither a SIDCO nor a Subpart C DCO to maintain and submit to the Commission viable plans for orderly wind-down necessitated by default and non-default losses.
  - b. Retain proposed definition of non-default losses as applied to all DCOs.
4. Provision of Data for Resolution Planning
  - a. Develop CFTC and FDIC inter-agency task force to discuss the sharing of information for resolution planning purposes, though Subcommittee members representing DCOs believe coordination already occurs between the two agencies with respect to SIDCOs and such coordination can and will continue through existing channels.
5. Porting of Customer Positions and Collateral During Resolution
  - a. Develop an inter-agency task force, which includes NFA, to discuss and address impediments to the porting of customer position and collateral in the context of

a DCO resolution and clearing member default.

A motion to adopt the recommendations was approved and will be presented to the Commission for consideration.

### **Future of Finance Subcommittee**

The Future of Finance Subcommittee presented its preliminary work plan on artificial intelligence (AI) in CFTC-regulated markets, which the Subcommittee intends to further review, research and develop for future presentation to MRAC and the Commission. The work plan provides for conducting a survey on the use of AI and considering recommendations on new guidance, advisories or rulemakings relating to AI models, including risk disclosure, monitoring and testing, and oversight.

### **Recommendation of Market Structure Subcommittee**

The Market Structure Subcommittee presented a report on FCM concentration and capacity analysis which noted significant consolidation of FCMs over the years and offered potential causes for consolidation, such as the 2008 financial crisis and regulatory obligations that led to increased capital requirements. The report also noted that the remaining FCMs are well capitalized and hold an historic amount of customer margin. A motion to adopt the report was approved and will be submitted to the Commission for consideration.

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### **Notes**

[1] The webcast of the GMAC meeting is available at <https://www.youtube.com/watch?v=sMOKXvyP-kA>. Commissioner Pham's opening statement is available at <https://www.cftc.gov/PressRoom/SpeechesTestimony/phamstatement030624> and Commissioner Goldsmith Romero's opening statement is available at <https://www.cftc.gov/PressRoom/SpeechesTestimony/romerostatement030624>. Slides presented at the meeting are available for download at [https://www.cftc.gov/media/10316/GMAC\\_Meeting\\_Slides\\_030624/download](https://www.cftc.gov/media/10316/GMAC_Meeting_Slides_030624/download).

The webcast of the MRAC meeting is available at <https://www.youtube.com/watch?v=2KKf6yeyqN0w>. Commissioner Johnson's opening statement is available at <https://www.cftc.gov/PressRoom/SpeechesTestimony/johnsonstatement040924>. Slides presented at the meeting are available for download at [https://www.cftc.gov/media/10481/mrac\\_040924ParentCommitteeMeeting/download](https://www.cftc.gov/media/10481/mrac_040924ParentCommitteeMeeting/download).

[2] A memorandum of the Subcommittee's recommendations is available for download at [https://www.cftc.gov/media/10331/CFTC\\_GMAC\\_GM\\_Structure\\_Subcommittee\\_Recommendation-UST ETF as UMR Collateral/download](https://www.cftc.gov/media/10331/CFTC_GMAC_GM_Structure_Subcommittee_Recommendation-UST ETF as UMR Collateral/download).

[3] The proposed guide is available for download at [https://www.cftc.gov/media/10326/GMAC\\_T+1\\_Resources\\_030624/download](https://www.cftc.gov/media/10326/GMAC_T+1_Resources_030624/download).

[4] A memorandum of the Subcommittee's recommendation is available for download at [https://www.cftc.gov/media/10321/CFTC\\_GMAC\\_DAM\\_Classification\\_Approach\\_and\\_Taxonomy\\_for\\_Digital\\_Assets\\_030624/download](https://www.cftc.gov/media/10321/CFTC_GMAC_DAM_Classification_Approach_and_Taxonomy_for_Digital_Assets_030624/download).

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