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Treasury Market Disruptions and Policy Options

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SUMMARY

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Eva Su
Specialist in Financial Economics

Treasury Market Disruptions and Policy Options

The nearly $30 trillion U.S. Treasury securities market is considered one of the most important financial markets in the world. The market offers a low-risk (backed by the full faith and credit of the U.S. government) and liquid asset for domestic and global investors while financing U.S. federal spending. Any event that significantly disrupts Treasury market functions, such as sudden increases in price volatility or reductions in liquidity, could cause distress in the global financial system. Some recent market disruptions (e.g., in 2019 and 2020) that required federal government backstops indicate that the Treasury market is not immune to financial stability concerns.

In light of the increased frequency of notable Treasury market events, Congress has engaged with stakeholders to understand market conditions and explore policy options. During the 119th Congress, the House Committee on Financial Services created a new task force dedicated to Treasury market resilience, and Treasury market issues were a key focus at multiple hearings. Members of Congress expressed strong support for maintaining a liquid and resilient Treasury market and for continuing to explore relevant policy solutions to enhance Treasury market resilience.

Policy discussions associated with Treasury market disruptions tend to gravitate toward several key topics, including (1) the size and growth of the Treasury market, which may have outstripped Treasury market intermediaries' market-making capacity; (2) the unwinding of hedge fund basis trades; (3) sudden changes in institutional investor influence; and (4) the changes in conditions that could affect investors' perception of the creditworthiness of Treasury securities.

Multiple authorities are responsible for regulating or operating various components of the Treasury market. The Department of the Treasury is responsible for securities issuance. The Securities and Exchange Commission (SEC) is the primary regulator overseeing the trading of U.S. Treasury securities, including the oversight of brokers and dealers facilitating the trading. The Trade Reporting and Compliance Engine is the main system for consolidating Treasury securities transaction data and reporting. The Financial Industry Regulatory Authority operates this reporting system with the involvement of the SEC, Treasury, the Federal Reserve, and banking regulators. The process for clearing and settling transactions in Treasury securities is facilitated by entities operated by or under the oversight of the SEC and the Federal Reserve. The Commodity Futures Trading Commission oversees Treasury derivatives markets, including instruments such as Treasury futures, options, swaps, and futures on indexes related to Treasuries.

Various government agencies, industry practitioners, academics, and interest groups have made a number of recommendations regarding Treasury market resilience. Critics of some of these recommendations assert that they would entail undue government intervention and impose additional costs on market participants. Proposed policy options for Congress to consider—either legislative actions or agency oversight—include the following:

- Expand Treasury market capacity by (1) reducing intermediaries' disincentives to offer dealer capacity and (2) exploring new trading venues.
- Mandate central clearing that could enhance Treasury market risk management (not including concentration risk), reduce settlement flow, and increase risk transparency.
- Reduce hedge fund basis trade leverage through potential over-collateralization requirements (e.g., haircuts) that would curtail certain borrowing activities.
- Evaluate the existing and new options for federal government backstops while maintaining awareness of moral hazards.
- Utilize the Treasury Department's buyback program to offer liquidity support for Treasury securities.
- Increase data transparency and reporting for risk monitoring and risk mitigation.

Increase coordination across different financial organizations and through industry engagements.

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At nearly $30 trillion in size, the U.S. Treasury securities (Treasuries) market is considered one of the most important financial markets in the world. The market offers a low-risk (backed by the full faith and credit of the U.S. government) and liquid asset for global investors while financing U.S. federal government spending. Any event that significantly disrupts Treasury market functions could cause distress in the global financial system and make it more difficult to finance the federal debt, and some market events show that the Treasury market is not immune to such disruptions.

In light of the Treasury market's critical importance and the increased frequency of disruptive events, Congress has engaged with stakeholders to understand market conditions and explore policy options. During the 119th Congress, the House Committee on Financial Services created a new task force dedicated to Treasury market resilience, and Treasury market issues were a key focus at multiple hearings.[1] Members of Congress expressed support for maintaining a liquid and resilient Treasury market and for continuing to explore relevant policy solutions.[2] This report discusses the Treasury market structure, the regulatory framework, notable market events, and related policy options for Congress to consider.

Market Overview

The U.S. Treasury market is the world's deepest and most liquid financial market.[3] It serves key functions in financing federal debt, transmitting monetary policy, supporting investor liquidity management, and establishing the risk-free yield curve that underpins the pricing of other financial assets.[4] Treasury securities are often referred to as "benchmark" securities because their yields are used as references for other interest rates. The Treasury securities market experienced substantial growth and some investor composition shifts since the 2000s. Such changes have transformed the market's demand for intermediation capacity and affected the market's reliance and sensitivity to certain investor behaviors.

Size and Influence

Outstanding U.S. Treasury securities grew in nominal dollars to $28 trillion in 2024 from $3 trillion in 2002 (**Figure 1**). They account for around 40% of all fixed income securities

[1] House Committee on Financial Services (HFSC), "Chairman Hill Announces Monetary Policy, Treasury Market Resilience, and Economic Prosperity Task Force of the House Financial Services Committee," January 14, 2025, https://financialservices.house.gov/news/documentsingle.aspx?DocumentID=409440. For example, related hearings were held on March 4, 2025, April 8, 2025, and May 15, 2025. HFSC, *Hearing Entitled: Task Force on Monetary Policy, Treasury Market Resilience, and Economic Prosperity: Examining Monetary Policy and Economic Opportunity*, March 4, 2025, https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=409476; HFSC, *Hearing Entitled: U.S. Treasury Debt in the Monetary System*, April 8, 2025, https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=409677; and HFSC, *Hearing Entitled: Examining Treasury Market Fragilities and Preventative Solutions*, May 15, 2025, https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=409704.

[2] See Member statements at hearings. For example, Bloomberg, *House Financial Services Committee, Task Force on Monetary Policy Hearing Transcript*, May 16, 2025, https://www.bgov.com/news/SWCPLM0799MO.

[3] Inter-Agency Working Group on Treasury Market Surveillance, *Recent Disruptions and Potential Reforms in the U.S. Treasury Market: 2024 Staff Progress Report*, September 20, 2024, https://home.treasury.gov/system/files/136/2024-IAWG-report.pdf. *Market depth* refers to the number of market participants and the market's ability to efficiently absorb large market orders. *Liquidity* in capital markets refers to the ease and speed of selling an asset without significantly affecting its price.

[4] Nellie Liang, *Testimony for the House Committee on Financial Service's Task Force on Monetary Policy, Treasury Market Resilience, and Economic Prosperity*, April 8, 2025, https://docs.house.gov/meetings/BA/BA00/20250408/118116/HHRG-119-BA00-Wstate-LiangN-20250408.pdf.

outstanding in the United States.[5] Daily trading volume for Treasury securities exceeds $1 trillion.[6] Market participants use Treasury securities to hedge portfolio positions, create low-risk investment strategies, serve as collateral for borrowings, speculate on interest rate movements, and provide reference rates for pricing and analyzing other securities.[7]

Figure 1. Treasury Securities Outstanding

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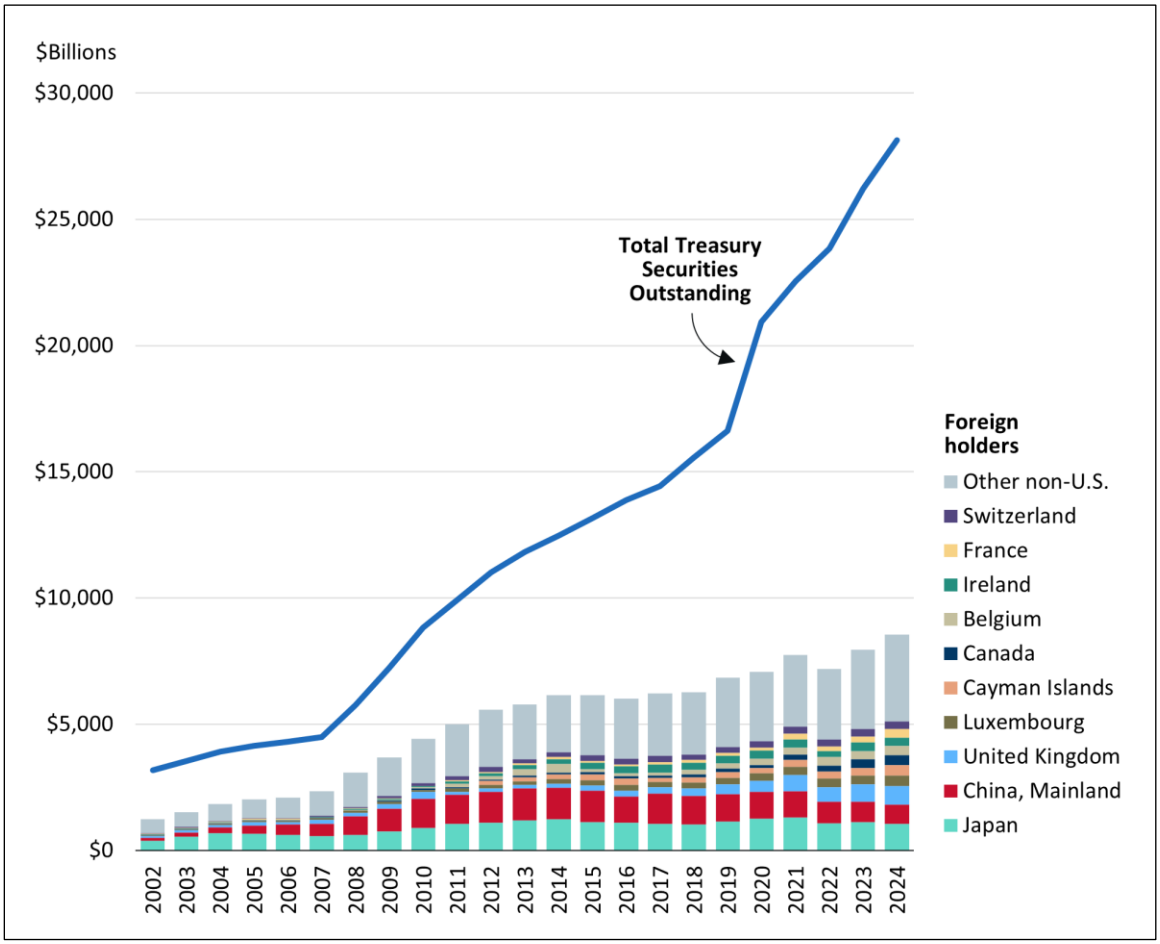


Source: Created by CRS using data from U.S. Department of the Treasury, Treasury International Capital system, https://ticdata.treasury.gov/resource-center/data-chart-center/tic/Documents/mfhhis01.txt, and Board of Governors of the Federal Reserve System, Financial Accounts of the United States (Z.1), Table L.210 (Treasury Securities), via Data Download Program at https://www.federalreserve.gov/datadownload.

Notes: Terminology regarding foreign holders is set by sources. The Treasury Department estimates foreign holdings based on the location of the holdings, not the nationality of the holder. Some of the largest holders are international financial centers (e.g., Belgium, Caribbean countries, Luxembourg, and Switzerland) whose clients are presumably from third countries. For example, a Chinese investor who buys U.S. securities and keeps them in the custody of a Belgian bank would have those assets counted under Belgium, not China. Not all countries

[5] Securities Industry and Financial Markets Association, "Fixed Income Outstanding," https://www.sifma.org/explore-issues/treasury-market-structure.

[6] Financial Industry Regulatory Authority, "Treasury Daily Aggregate Statistics—Files," https://www.finra.org/finra-data/browse-catalog/about-treasury/daily-file.

[7] Michael J. Fleming, "Measuring Treasury Market Liquidity," *FRBNY Economic Policy Review*, September 2003, https://www.newyorkfed.org/medialibrary/media/research/epr/03v09n3/0309flempdf.pdf.

have data for all years. "All Other" may not represent the same countries in each year. After 2011, groupings for "Caribbean Banking Centers" and "Oil Exporters" are replaced by individual countries. Data for non-U.S.-country holdings come from the Treasury Department's Treasury International Capital system, while figures for total Treasury securities outstanding come from the Federal Reserve's Financial Accounts of the United States report. There may be minor technical differences between the two sources. Data as of May 14, 2025.

Investor and Holder Composition

Holders of Treasury securities include the Federal Reserve (Fed),[8] foreign central banks, mutual funds, exchange-traded funds (ETFs),[9] private and public pension funds, banking institutions, hedge funds,[10] state and local governments, households (including purchasers of U.S. savings bonds),[11] and insurance companies.[12] Stablecoin issuers represent a small but emerging category of investor in Treasury securities, particularly short-term Treasuries.[13]

Although the aggregated amount of foreign holdings increased between 2002 and 2024, their share of total Treasury securities declined (from a peak of around 57% in 2008 to around 30% in 2024) because the overall Treasury securities outstanding grew substantially faster than foreign holdings did.[14] As **Figure 1** illustrates, Japan, the United Kingdom, China, Luxembourg, the Cayman Islands, Canada, Belgium, Ireland, France, and Switzerland are some of the largest foreign holders of U.S. Treasuries.[15] As the market has become less reliant on foreign holders (as measured by percentage of holdings), mutual funds and ETFs, hedge funds, households, and commercial banks have increased their share of total Treasury securities outstanding.[16]

Market Structure

The overall Treasury market can be broadly divided into three distinct segments:

[8] Federal Reserve Bank of St. Louis, "Assets: Securities Held Outright: U.S. Treasury Securities: Wednesday Level (WSHOTSL)," https://fred.stlouisfed.org/series/WSHOTSL.

[9] For more on ETFs, see CRS Report R45318, *Exchange-Traded Funds (ETFs): Issues for Congress*, by Eva Su.

[10] For more on hedge funds, see CRS In Focus IF12511, *Hedge Funds: Background and Policy Issues*, by Eva Su.

[11] U.S. savings bonds are non-marketable Treasury securities that are registered using investors' Social Security numbers. Investors cannot sell or transfer the bonds to others. For more details, see Treasury Direct, "About U.S. Savings Bonds," https://treasurydirect.gov/savings-bonds.

[12] For a complete list of Treasury securities holders tracked by the U.S. government, see Department of the Treasury, Bureau of the Fiscal Service, *Treasury Bulletin*, June 2025, https://fiscal.treasury.gov/files/reports-statements/treasury-bulletin/2025/b2025-2.pdf#page=58; and Federal Reserve, *Z.1 Financial Accounts of the United States*, Fourth Quarter 2024, https://www.federalreserve.gov/releases/z1/20250313/z1.pdf#page=138.

[13] Payment-like stablecoins (e.g., Tether's USDT, Circle's USDC) are digital assets that aim to maintain stable values by holding reserves in various safe assets and currencies, including Treasury securities. For more on the background of stablecoins, see CRS In Focus IF11968, *Stablecoins: Background and Policy Issues*, by Eva Su. According to the Bank for International Settlements, stablecoin issuers have become major buyers and holders of short-term Treasury securities (i.e., Treasuries with maturities of less than one year), with investments in those Treasury securities similar in size to the holdings of some major foreign investors (which invest more heavily in longer-term Treasuries) and large money market mutual funds. Rashad Ahmed and Iñaki Aldasoro, "Stablecoins and Safe Asset Prices," Bank for International Settlements, May 28, 2025, https://www.bis.org/publ/work1270.htm. For more on money market mutual funds, see CRS Report R47309, *Money Market Mutual Funds: Policy Concerns and Reform Options*, by Eva Su.

[14] For more details on foreign holders, see CRS Report RS22331, *Foreign Holdings of Federal Debt*, by Marc Labonte and Ben Leubsdorf.

[15] See **Error! Reference source not found.** footnotes for more details on data limitations.

[16] Tom Reithinger and Douglas Kletter, "Treasury Market Turmoil: How Might the Fed React?," Capital Group, April 15, 2025, https://www.capitalgroup.com/institutional/insights/articles/treasury-market-how-might-fed-react.html.

- The primary market is where the U.S. Treasury Department issues Treasury securities. The Treasury Department oversees the operational aspects of the federal government borrowing process, issues government securities, and facilitates auctions (together with the Fed) to sell newly issued Treasury securities.[17] Treasury securities come in different types, such as Treasury bills, notes, bonds, inflation-protected securities, and floating rate notes.
- The secondary market, discussed in more detail below, is where previously issued Treasury securities are bought and sold.
- The Treasury derivatives market consists of financial contracts with values derived from the underlying Treasury securities. For example, Treasury futures is where Treasury securities are bought and sold at a predetermined price and a set future time.

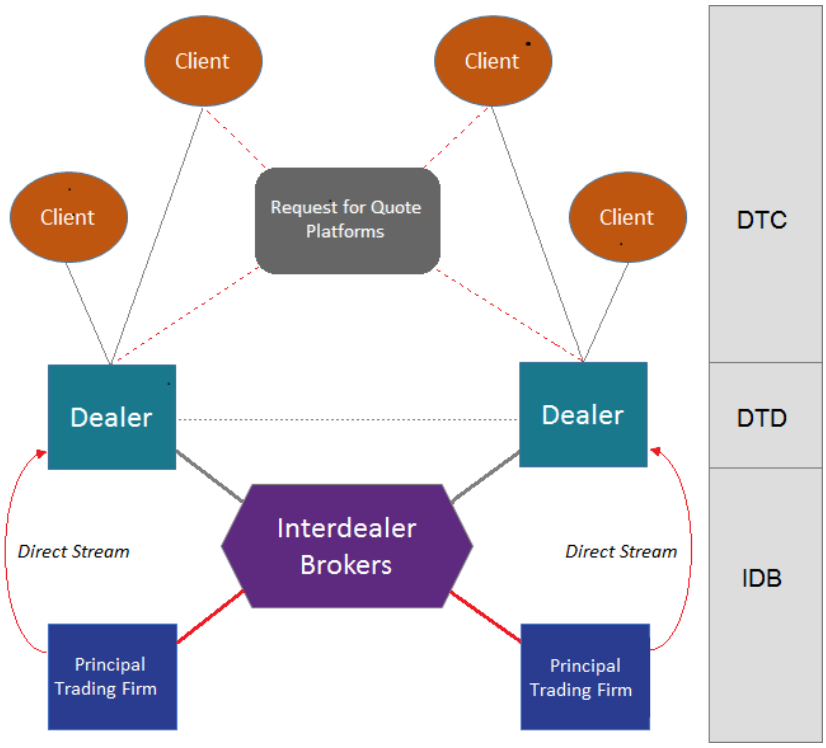
Secondary market trading in Treasury securities generally takes place *over the counter*, meaning there is not a centralized listing of offers to buy and sell on national securities exchanges. Instead, counterparties trade directly with each other or through broker-dealers, which are financial institutions that match buyers and sellers (as "brokers") or buy and sell securities for their own portfolios (as "dealers"). Fed-designated *primary dealers*—dealers authorized to purchase newly issued Treasuries on the primary market—and other dealers account for the majority of Treasury cash market activities,[18] followed by buy-side investment firms and principal trading firms (PTFs)—high-frequency-trading firms that trade for their own accounts.[19] The market consists of three components, as illustrated in **Figure 2**: (1) the dealer-to-client segment, which uses request-for-quote platforms to allow clients to solicit bids and offers from multiple dealers; (2) the dealer-to-dealer segment, which facilitates trades between dealers; and (3) the interdealer broker segment, which facilitates trades between dealers via brokers.

[17] For more on the Treasury Department's debt issuance operations, see CRS Report R40767, *How Treasury Issues Debt*, by Grant A. Driessen.

[18] Treasury Department, "Primary Dealers," https://home.treasury.gov/policy-issues/financing-the-government/quarterly-refunding/primary-dealers.

[19] James Collin Harkrader and Michael Puglia, "Principal Trading Firm Activity in Treasury Cash Markets," Federal Reserve, August 4, 2020, https://www.federalreserve.gov/econres/notes/feds-notes/principal-trading-firm-activity-in-treasury-cash-markets-20200804.htm. *Buy-side firms* refers to institutional investors that purchase securities.

Figure 2. Treasury Market Structure



Source: Doug Brian et al., "Unlocking the Treasury Market Through TRACE," Federal Reserve, September 28, 2018, https://www.federalreserve.gov/econres/notes/feds-notes/unlocking-the-treasury-market-through-trace-20180928.html.

Notes: DTC = dealer-to-client; DTD = dealer-to-dealer; and IDB = interdealer broker.

After two counterparties agree to trade a security for cash, a third party could *clear* the trade, handling the operations necessary to transfer the securities and cash from the respective accounts. Some trades and markets involve *central clearing*, where the third party, in this case called a *clearinghouse*, actually buys and then resells the securities in all the trades it clears.[20] A significant portion of Treasury market trading volume is not centrally cleared as of 2025.[21] The Government Securities Division of the Fixed Income Clearing Corporation (FICC) is the main central clearinghouse for Treasury securities trading that does involve central clearing.[22] In December 2023, the Securities and Exchange Commission (SEC) adopted a central clearing rule that requires eligible Treasury secondary market transactions to be centrally cleared through an SEC-approved clearing agency (e.g., FICC).[23] The requirement was originally set to go into effect on December 31, 2025, for cash transactions and June 30, 2026, for repurchase transactions. On

[20] Dietrich Domanski et al., "Central Clearing: Trends and Current Issues," *BIS Quarterly Review*, December 2015, https://www.bis.org/publ/qtrpdf/r_qt1512g.pdf. See "Central Clearing" section of this report for more details.

[21] Former SEC Chair Gary Gensler, "Statement on Final Rules Regarding Treasury Clearing," December 13, 2023, https://www.sec.gov/newsroom/speeches-statements/gensler-statement-treasury-clearing-121323.

[22] SEC, "Order Granting the Fixed Income Clearing Corporation's Amended Application for Permanent Registration as a Clearing Agency," 78 *Federal Register* 125, June 28, 2013, https://www.govinfo.gov/content/pkg/FR-2013-06-28/pdf/2013-15509.pdf.

[23] The rule generally mandates eligible Treasury securities cash transactions and Treasury securities repurchase and reverse repurchase agreement transactions to be centrally cleared. SEC, "SEC Adopts Rules to Improve Risk Management in Clearance and Settlement and Facilitate Additional Central Clearing for the U.S. Treasury Market," press release, December 13, 2023, https://www.sec.gov/newsroom/press-releases/2023-247.

February 25, 2025, the SEC extended compliance dates for the final rule to December 31, 2026, and June 30, 2027, respectively, for the different market segments.[24] On September 30, 2025, the SEC published an update on the implementation process, emphasizing the importance of Treasury markets and the main issues facing the rule's implementation.[25]

Regulatory Frameworks

Multiple financial authorities are responsible for regulating or operating various components of the Treasury securities market (**Figure 3**):

- The Treasury Department is responsible for securities issuance, while the Fed executes auctions and buybacks.[26]
- Trading Treasury securities is facilitated mainly by brokers and dealers. The Government Securities Act of 1986 (GSA, P.L. 99-571) establishes the broker-dealer regulatory framework in the government securities market. When the GSA was enacted, Congress relied on the existing federal regulatory infrastructure and authorized the Treasury Department to promulgate rules governing transactions in government securities by government securities brokers and dealers.[27] The enforcement authority for the rules generally resides with the SEC, the Financial Industry Regulatory Authority (FINRA), and relevant banking regulators.[28]
- The Trade Reporting and Compliance Engine (TRACE) is the main system for consolidating Treasury securities transaction data and reporting. FINRA operates TRACE with involvement from the Treasury Department, SEC, Fed, and other official entities.
- The clearing and settlement of Treasury securities are facilitated by some entities operated by or under the oversight of the Fed and the SEC. The Fed operates the Fedwire Securities Service, a securities settlement system that provides safekeeping and transfer services for Treasury securities.[29] The central clearing agency FICC is a designated systemically important financial market utility (FMU) that receives enhanced regulatory oversight by the SEC (their primary regulator) and the Fed.[30]
- The federal bank regulators—the Office of the Comptroller of the Currency, the Fed, and the Federal Deposit Insurance Corporation—have broad authorities to

[24] SEC, "SEC Extends Compliance Dates and Provides Temporary Exemption for Rule Related to Clearing of U.S. Treasury Securities," press release, February 25, 2025, https://www.sec.gov/newsroom/press-releases/2025-43.

[25] SEC Commissioner Mark Uyeda, "Update on Working Toward Treasury Clearing Implementation," September 30, 2025, https://www.sec.gov/newsroom/speeches-statements/uyeda-093025-update-treasury-clearing-implementation.

[26] Federal Reserve Bank of New York, "Treasury Debt Auctions and Buybacks as Fiscal Agent," https://www.newyorkfed.org/markets/treasury-debt-auctions-and-buybacks-as-fiscal-agent.

[27] Department of the Treasury, Board of Governors of the Federal Reserve System, Federal Reserve Bank of New York, SEC, and Commodity Futures Trading Commission, *Joint Staff Report: The U.S. Treasury Market on October 15, 2014*, July 13, 2015, https://www.treasury.gov/press-center/press-releases/Documents/Joint_Staff_Report_Treasury_10-15-2015.pdf.

[28] FINRA is a self-regulatory organization overseeing the broker-dealer industry. FINRA is registered with the SEC and operates under the SEC's supervision. For more details, see FINRA, "2025 Industry Snapshot," https://www.finra.org/media-center/reports-studies/2025-industry-snapshot.

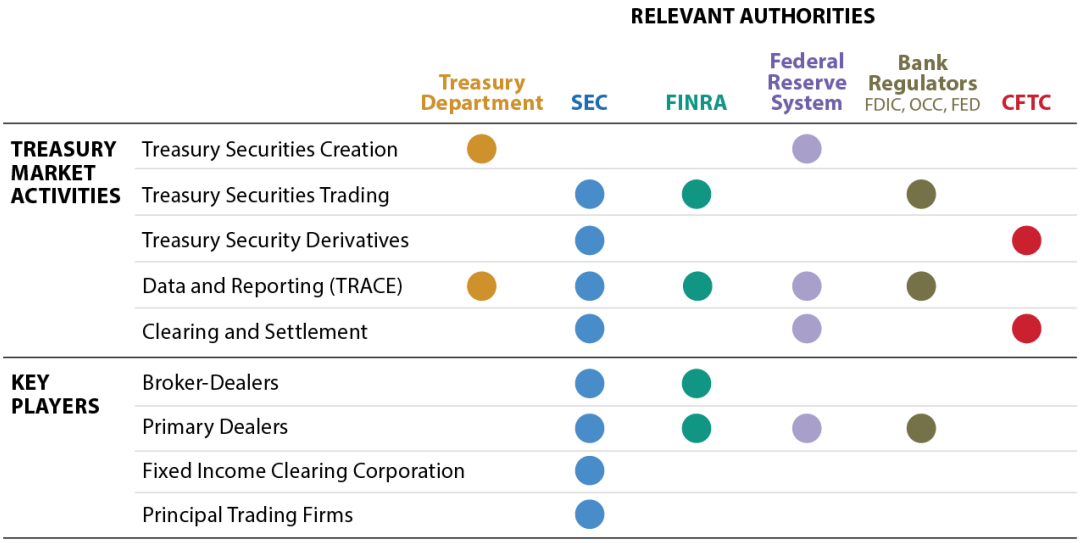
[29] Federal Reserve, "Fedwire Securities Services," https://www.federalreserve.gov/paymentsystems/fedsecs_about.htm.

[30] Federal Reserve, "Designated Financial Market Utilities," https://www.federalreserve.gov/paymentsystems/designated_fmu_about.htm.

regulate banks, and these general authorities apply to banks' activities involving Treasury securities.[31] The banking regulators are responsible for supervising banks that qualify as government securities dealers for compliance with the GSA.[32] Certain banks must report related transactions to TRACE.[33]

- The Commodity Futures Trading Commission (CFTC) oversees Treasury derivatives, such as Treasury futures.

Figure 3. Examples of Treasury Market Activities, Participants, and Authorities



Source: CRS.

Notes: The listing of relevant authorities includes entities that generally directly assume major regulatory or operational roles. It may not include entities with indirect involvements and coordination roles. SEC = Securities and Exchange Commission; OCC = Office of the Comptroller of the Currency; FED = Federal Reserve System; FDIC = Federal Deposit Insurance Corporation; TRACE = Trade Reporting and Compliance Engine; FINRA = Financial Industry Regulatory Authority; CFTC = Commodity Futures Trading Commission.

Different Treasury market participants and infrastructure components may face different regulatory requirements, reflecting their respective roles and risks:

- **OTC markets.** SEC regulations of *alternative trading systems* (ATSs)—electronic trading systems that match orders for buyers and sellers of securities but are not registered as *national securities exchanges*—generally do not apply to government securities ATSs.[34] In 2020, the SEC proposed extending Regulation ATS to the Treasury securities market.[35] The SEC formally withdrew the

[31] Joseph G. Fallon, "The Government Securities Act of 1986: Balancing Investor Protection with Market Liquidity," *Catholic University Law Review*, vol. 36, no. 4 (Summer 1987), pp. 1007-1008.

[32] Department of the Treasury, Office of the Comptroller of the Currency (OCC), *Comptroller's Handbook Government Securities Act Version 1.0*, January 2015, https://www.occ.treas.gov/publications-and-resources/publications/comptrollers-handbook/files/government-securities-act/pub-ch-government-securities-act.pdf.

[33] FINRA, "Federal Reserve Depository Institution Reporting to TRACE," https://www.finra.org/filing-reporting/trace/federal-reserve-depository-institution-reporting.

[34] For more on ATSs, see SEC Investor.gov, "Alternative Trading Systems (ATSs)," https://www.investor.gov/introduction-investing/investing-basics/glossary/alternative-trading-systems-atss.

[35] SEC, "SEC Proposes Rules to Extend Regulations ATS and SCI to Treasuries and Other Government Securities Markets," press release, September 28, 2020, https://www.sec.gov/news/press-release/2020-227.

proposed rule in June 2025 but included related new rulemaking in its Spring 2025 agency agenda.[36]

- **Broker-dealers.** The GSA sets the framework for regulating broker-dealers operating in the government securities market. The GSA framework focuses on the protection of customer securities and funds, recordkeeping, reporting, and custodial holdings of government securities by depository institutions, among other things. This framework is less stringent than the one that applies to nongovernment securities broker-dealers.[37] But because it would be rare for broker-dealers to be exclusively transacting in the Treasury securities market, in practice, broker-dealers operating in that market are normally also subject to the regulatory frameworks governing nongovernment securities. The Securities Exchange Act of 1934 (P.L. 73-291) provides the broker-dealer regulatory framework.[38] The SEC and FINRA are the primary regulators of broker-dealers. To be eligible as a primary dealer, the entity must be either a broker-dealer registered with the SEC and approved as a member of FINRA or a state or federally chartered bank or savings association that is subject to supervision by bank supervisors.[39]
- **Principal trading firms.** PTFs are a type of electronic and automated intermediary that includes certain high-frequency trading firms and nonbank market makers. Most PTFs are not SEC-registered dealers because they do not qualify as "dealers" under the SEC's regulations.[40] As a result, except for prohibitions on fraud and market manipulation, the SEC's regulations did not apply to PTFs. Some argued that the lack of PTF oversight created an uneven regulatory structure and suggested that the SEC designate PTFs as dealers.[41] In 2024, the SEC adopted new rules to require certain PTFs to register as broker-dealers and be subject to stricter regulation.[42] The SEC subsequently dropped its appeal of a court ruling that vacated the 2024 final rule but added related new rulemaking to its Spring 2025 agenda.[43]
- **Fixed Income Clearing Corporation.** FICC has been designated as a systemically important FMU by the Financial Stability Oversight Council (FSOC),[44] subject to enhanced regulation and supervision by the SEC and Fed.[45] All clearing agencies must have their internal rules approved by the SEC to ensure, among other things, prompt and accurate settlement and are routinely

[36] See "Enhance Treasury Market Oversight" section of this report for more details.

[37] For more on SEC broker-dealer regulation, see SEC, "Broker-Dealers," https://www.sec.gov/divisions/marketreg/mrbdealers.shtml.

[38] For more on SEC broker dealer registration, standards of conduct, and the financial responsibility rules, see SEC, "Broker-Dealers."

[39] Federal Reserve Bank of New York, "Primary Dealers," https://www.newyorkfed.org/markets/primarydealers.

[40] 15 U.S.C. § 78c(5).

[41] SEC Commissioner Elad Roisman, *Remarks at U.S. Treasury Conference*, September 29, 2020, https://www.sec.gov/news/speech/roisman-us-treasury-conference-2020-09-29.

[42] SEC, "SEC Adopts Rules to Include Certain Significant Market Participants as 'Dealers' or 'Government Securities Dealers,'" February 6, 2024, https://www.sec.gov/newsroom/press-releases/2024-14.

[43] See "Enhance Treasury Market Oversight" section of this report for more details.

[44] For more on FSOC, see Department of Treasury, "About FSOC," https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/fsoc/about-fsoc.

[45] FMU designations were created by Title VIII of the Dodd-Frank Act.

examined for risk management and regulatory compliance. Building on this existing regulatory framework, FMUs are subject to annual exams, internal stress testing, recovery and wind-down planning requirements, and heightened risk management standards compared to other clearinghouses.[46] Central clearing reduces counterparty risk but concentrates that risk in the clearinghouse. As a self-regulatory organization, however, FICC imposes rules on participants to mitigate risk, such as margin requirements and a participant-funded clearing fund.[47]

Examples of Market Events

As previously discussed, the Treasury securities market experienced substantial changes in recent decades that have affected its intermediation capacity and resilience to stress events. The "Policy Concerns" section of this report examines key factors that may have contributed to certain notable Treasury market events.

Treasury securities are widely held safe assets that underpin financial stability. Any event that significantly disrupts Treasury market functions, such as sudden increases in price volatility or reductions in liquidity, could cause distress in the global financial system. While not every episode of Treasury market volatility signals a structural vulnerability,[48] heightened volatility can nonetheless attract policy attention and trigger alerts through market dislocations. The events highlighted in this section, each of which prompted direct policy responses, demonstrate that the Treasury market is not immune to vulnerabilities.

"Flash Rally" in October 2014

On October 15, 2014, the Treasury market experienced unusually high volatility and a sharp swing of prices despite an apparent absence of the types of events that would normally catalyze market dislocations.[49] The event was called a "flash rally" because the large decline and rebound in prices happened within minutes. Market observers focused on changes in market structure to explain the event. The most fundamental shift in market structure in the years leading up to the event included the emergence of high-speed electronic trading. The shift affected the types of market participants and the ways they demand and supply liquidity. For example, PTFs have become key players in the Treasury market. At the time of the flash rally, PTFs accounted for the majority of trading and standing quotes in certain Treasury order books (e.g., futures and the inter-dealer cash market).[50] Because the PTFs may not have the same balance sheet capacity for

[46] SEC, *Staff Report on the Regulation of Clearing Agencies*, October 1, 2020, https://www.sec.gov/files/regulation-clearing-agencies-100120.pdf; and testimony of former SEC Chair Mary Jo White in U.S. Congress, Senate Committee on Banking, Housing, and Urban Affairs, *Wall Street Reform: Assessing and Enhancing the Financial Regulatory System*, September 9, 2014, https://www.sec.gov/news/testimony/ts090914mjw.

[47] FICC rules are available at https://www.dtcc.com/legal/sec-rule-filings?subsidiary=FICC+-+GOV&pgs=1.

[48] Certain market events, such as the market disruption in 2020, are considered by some observers as having exacerbated concerns about Treasury market resilience. Tobias Adrian et al., *U.S. Treasury Market Functioning from the GFC to the Pandemic*, Federal Reserve Bank of New York, April 2025, https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr1146.pdf.

[49] Department of the Treasury, Board of Governors of the Federal Reserve System, Federal Reserve Bank of New York, SEC, and CFTC, *Joint Staff Report: The U.S. Treasury Market on October 15, 2014.*

[50] James Clark and Gabriel Mann, "A Deeper Look at Liquidity Conditions in the Treasury Market," May 6, 2016, https://www.treasury.gov/connect/blog/Pages/A-Deeper-Look-at-Liquidity-Conditions-in-the-Treasury-Market.aspx; Department of the Treasury, Board of Governors of the Federal Reserve System, Federal Reserve Bank of New York, SEC, and CFTC, *Joint Staff Report: The U.S. Treasury Market on October 15, 2014*.

market-making as the more traditional bank-affiliated dealers, this change in market structure potentially led to weakened market resilience. In addition, high-speed trading created incentives for being the fastest, which could cause slower traders to withdraw from the market or seek other venues, thus reducing liquidity by segregating trading.[51]

The lack of full information surrounding the flash rally, some argue, underscored the need for transparency into some parts of the Treasury market structure that were not covered by data reporting at the time. The flash rally prompted policy discussions about Treasury market data collection and reporting, followed by rulemaking actions coordinated by multiple federal financial regulators.[52]

Treasury Repo Market Stress in September 2019

A repurchase agreement (or repo) is an agreement to sell securities with a promise to buy them back at a higher price and a later time.[53] Repo transactions are economically similar to collateralized loans. Repos' higher price for future repurchase plays the role of an interest rate. The repo transactions collateralized by Treasury securities represent the largest segment of the repo market. Each day, Treasury market participants use repos to borrow more than $1 trillion against Treasury securities.[54]

In mid-September 2019, Treasury repo and other money market instruments experienced unexpected and severe rate spikes.[55] The Treasury repo market stress coincided with quarterly corporate tax payments and the settlement of the mid-month Treasury coupon auction, generating transitory shocks through an increase in demand for and a decrease in the supply of cash. At the time, the reserve holdings at some banks were low relative to the banks' desired levels. The reserve levels limited the amount of cash these intermediaries could lend out to alleviate the rate pressure at the repo market, creating a situation where many lenders did not step in to take advantage of the higher rates.[56] Some large Treasury repo market dealers also experienced increases in intermediation costs, driving up repo rates. The temporary reduction in lending from money market mutual funds may have contributed to this cost increase in intermediation.[57] The Fed intervened by lending cash in the repo market and purchasing Treasury securities outright.[58]

[51] Federal Reserve Governor Jerome Powell, "Structure and Liquidity in Treasury Markets," speech at the Brookings Institution, Washington, DC, August 3, 2015, https://www.federalreserve.gov/newsevents/speech/powell20150803a.htm.

[52] Michael Fleming, "Advent of Trade Reporting for U.S. Treasury Securities," *Liberty Street Economics*, Federal Reserve Bank of New York, January 18, 2017, https://libertystreeteconomics.newyorkfed.org/2017/01/advent-of-trade-reporting-for-us-treasury-securities.

[53] See CRS In Focus IF11383, *Repurchase Agreements (Repos): A Primer*, by Marc Labonte.

[54] Adam Copeland et al., "How Competitive Are U.S. Treasury Repo Markets?," *Liberty Street Economics*, Federal Reserve Bank of New York, February 18, 2021, https://libertystreeteconomics.newyorkfed.org/2021/02/how-competitive-are-us-treasury-repo-markets.

[55] See CRS Insight IN11176, *Federal Reserve: Recent Repo Market Intervention*, by Marc Labonte; and Fernando Avalos, Torsten Ehlers, and Egemen Eren, "September Stress in Dollar Repo Markets: Passing or Structural?," Bank for International Settlements, December 2019, https://www.bis.org/publ/qtrpdf/r_qt1912v.htm.

[56] Gara Afonso et al., *The Market Events of Mid-September 2019*, Federal Reserve Bank of New York, March 2020, https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr918.pdf.

[57] Afonso et al., *The Market Events of Mid-September 2019*.

[58] Sriya Anbil et al., "What Happened in Money Markets in September 2019?," Federal Reserve, February 27, 2020, https://www.federalreserve.gov/econres/notes/feds-notes/what-happened-in-money-markets-in-september-2019-20200227.htm.

"Dash for Cash" in March 2020

In March 2020, the economic and financial uncertainties surrounding the COVID-19 pandemic induced a "dash for cash" that involved extensive market selloffs for assets across a wide spectrum: Stocks, bonds, mutual funds, digital assets, and Treasury securities all faced selloffs.[59] Many market participants—including foreign central banks, mutual funds, hedge funds, and others—started selling of Treasury securities. The sales pressure distorted the market and overwhelmed Treasury market intermediaries, resulting in key market makers,[60] including PTFs and other dealers, being unable to keep up with the demand for intermediation services.[61] Treasury securities prices experienced abnormal volatility, and the financing for Treasuries through repo became scarce.[62] The Fed took actions to address the market conditions, including establishing liquidity facilities, making large-scale purchases of Treasury securities, and engaging in repo lending.[63]

Unlike in September 2019, when the market disruptions were largely related to a cash lending strain, some researchers attribute the reasons for the 2020 Treasury market disruption to the sale pressure driven by liquidity needs at foreign central banks, mutual funds, and hedge funds. Sales were large in historical terms and at levels not seen even during the peak of the financial crisis in 2008.[64] Other researchers found that the rapid unwinding of hedge fund basis trades contributed to the 2020 Treasury market stress.[65]

Policy Concerns

Policy discussions associated with Treasury market disruptions tend to gravitate toward several key topics, including (1) the size and growth of the Treasury market, which may have outstripped Treasury market intermediaries' market-making capacity; (2) the potential unwinding of hedge fund basis trades; (3) the potential sudden changes in institutional investor influence; and (4) the changes in conditions that could affect investors' perception of the creditworthiness of Treasury securities. Given the implementation costs of policy changes, some market participants may also argue for maintaining the status quo. This section explains each factor in more detail.

[59] For broader background on market volatility and the March 2020 event, see CRS Report R46424, *Capital Markets Volatility and COVID-19: Background and Policy Responses*, by Eva Su.

[60] Market makers are high-volume traders that stand ready to buy or sell securities to "make a market."

[61] Nellie Liang and Pat Parkinson, "Enhancing Liquidity of the U.S. Treasury Market Under Stress," December 16, 2020, https://www.brookings.edu/wp-content/uploads/2020/12/WP72_Liang-Parkinson.pdf.

[62] Group of Thirty, *U.S. Treasury Markets Steps Toward Increased Resilience* (Group of Thirty, 2021), p. 15, https://group30.org/images/uploads/publications/G30_U.S._Treasury_Markets-_Steps_Toward_Increased_Resilience__1.pdf.

[63] See CRS Report R46411, *The Federal Reserve's Response to COVID-19: Policy Issues*, by Marc Labonte.

[64] Annette Vissing-Jorgensen, *The Treasury Market in Spring 2020 and The Response of the Federal Reserve*, National Bureau of Economic Research, August 2021, https://www.nber.org/system/files/working_papers/w29128/w29128.pdf#page=4.

[65] For more on hedge fund basis trades, see "Hedge Fund Leverage and Basis Trade" section of this report. For more on March 2020 Treasury market event and basis trade, see Jonathan Glicoes et al., "Quantifying Treasury Cash-Futures Basis Trades," Federal Reserve, March 8, 2024, https://www.federalreserve.gov/econres/notes/feds-notes/quantifying-treasury-cash-futures-basis-trades-20240308.html; and Srini Ramaswamy et al., "How Sensitive Is the Treasury cash-Futures Basis Trade to Funding Condition Shifts?," Federal Reserve Bank of Dallas, July 15, 2025, https://www.dallasfed.org/research/economics/2025/0715.

Market Intermediation and Dealer Capacity

According to a number of observers, the root cause of increasing Treasury market disruptions relates to the rapid growth of the market size outstripping dealers' intermediation and market-making capacity.[66] Reduced market intermediation capacity could lead to constraints in buying and selling Treasury securities, particularly during periods of market stress.

Primary dealers, who are authorized to directly purchase Treasury securities from the government with the intention to resell them to others, may have increasingly faced balance sheet constraints that limit their intermediation capacity.[67] Between 2014 and 2024, Treasury securities held by the public, which excludes Federal Reserve System Open Market Account (SOMA) holdings,[68] increased to $24 trillion from $10 trillion (a 139% increase), while the balance sheets of primary dealers grew to $4.2 trillion from $3.3 trillion (a 29% increase).[69] However, primary dealers' long-only Treasury positions increased to $0.61 trillion from $0.24 trillion (a 155% increase).[70]

The long-term time series in **Figure 4** indicates that Treasury securities held by the public, which excludes SOMA, has grown rapidly and smoothly in recent decade (dotted green line) while the primary dealer intermediation capacity, as measured by their gross positions (solid blue line) and secured financing to clients (dashed red line), have not experienced the same level of growth.[71]

[66] For example, see Group of Thirty, *U.S. Treasury Markets Steps Toward Increased Resilience*, p. 8; and Nellie Liang and Pat Parkinson, "Enhancing Liquidity of the U.S. Treasury Market Under Stress," Hutchins Center on Fiscal and Monetary Policy at Brookings, December 16, 2020, p. 1, https://www.brookings.edu/wp-content/uploads/2020/12/WP72_Liang-Parkinson.pdf.

[67] For more on primary dealers, see Federal Reserve Bank of New York, *Primary Dealers*.

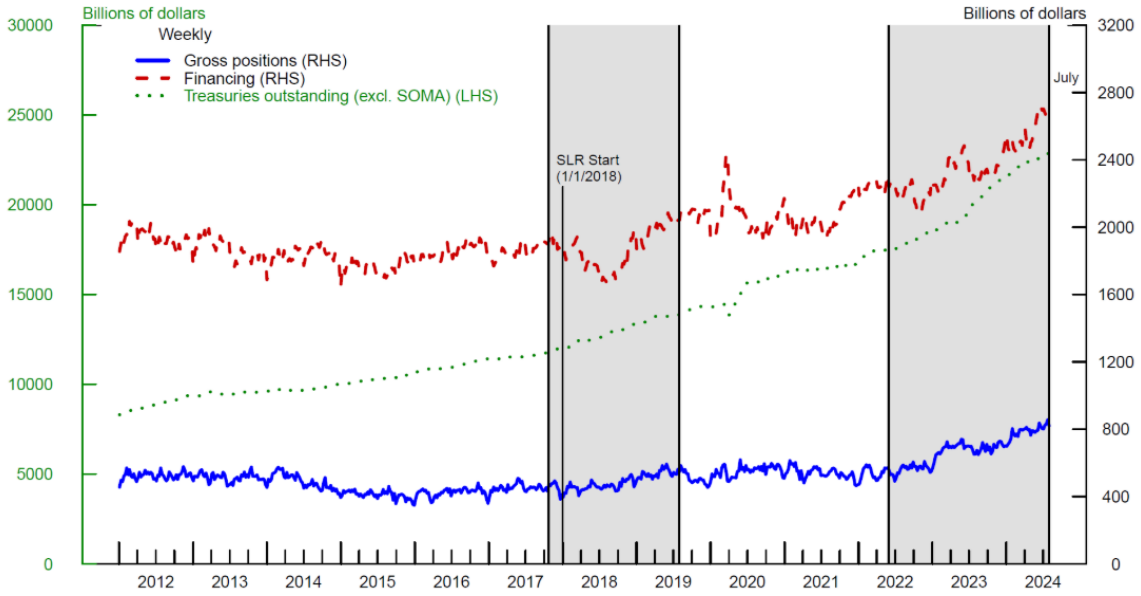
[68] Federal Reserve Bank of New York, "System Open Market Account Holdings of Domestic Securities," https://www.newyorkfed.org/markets/soma-holdings.

[69] See OCC, Board of Governors of the Federal Reserve System, and Federal Deposit Insurance Corporation, *Regulatory Capital Rule: Modifications to the Enhanced Supplementary Leverage Ratio Standards for U.S. Global Systemically Important Bank Holding Companies and Their Subsidiary Depository Institutions; Total Loss-Absorbing Capacity and Long-Term Debt Requirements for U.S. Global Systemically Important Bank Holding Companies*, Table 2, https://www.federalreserve.gov/aboutthefed/boardmeetings/files/frn-leverage-ratio-20250625.pdf.

[70] OCC, Board of Governors of the Federal Reserve System, and Federal Deposit Insurance Corporation, *Regulatory Capital Rule*, Table 2.

[71] Paul Cochran et al., "Assessment of Dealer Capacity to Intermediate in Treasury and Agency MBS Markets," Federal Reserve, October 22, 2024, https://www.federalreserve.gov/econres/notes/feds-notes/assessment-of-dealer-capacity-to-intermediate-in-treasury-and-agency-mbs-markets-20241022.html.

Figure 4. Primary Dealer Capacity and Treasury Securities Held by the Public



Source: Paul Cochran et al., "Assessment of Dealer Capacity to Intermediate in Treasury and Agency MBS Markets," Federal Reserve, October 22, 2024, https://www.federalreserve.gov/econres/notes/feds-notes/assessment-of-dealer-capacity-to-intermediate-in-treasury-and-agency-mbs-markets-20241022.html.

Notes: RHS = right hand side, LHS = left hand side, SOMA = Federal Reserve System Open Market Account. *Treasury securities held by the public* refers to Treasury securities outstanding excluding SOMA.

Some research indicates that dealer capacity could contribute to the health of Treasury market functionality.[72] The research states that, because nearly all Treasury securities transactions are facilitated by dealers (**Figure 2**), the willingness and ability of dealers to allocate space on their balance sheets for Treasury securities transactions become one of the key factors influencing Treasury market functionality.[73]

Institutional Investor Behavior

As discussed in the "Investor and Holder Composition" section of this report, some foreign investors and large institutional investors hold significant U.S. Treasury securities positions. These positions and their relative importance changed over time. Below are several key trends and the explanations of their significance.

- **Foreign investors.** In aggregate, foreign investors hold around 30% of all U.S. Treasury securities outstanding as of 2024 (**Figure 1**). Large foreign participants' sudden changes in selling or buying Treasury securities could affect the market's supply and demand mechanisms.
- **Asset managers—hedge funds, mutual funds, and ETFs.** The Treasury securities market is increasingly reliant on nonbank capital markets intermediaries, such as mutual funds, hedge funds, and ETFs. These financial intermediaries have their own set of risk concerns, including "runnable behavior," leverage, and liquidity mismatch. For a more detailed account of these

[72] Darrell Duffie et al., "Dealer Capacity and U.S. Treasury Market Functionality," Federal Reserve Bank of New York, August, 2023, https://doi.org/10.59576/sr.1070.

[73] Duffie et al., "Dealer Capacity and U.S. Treasury Market Functionality."

and other risk factors, see CRS Report R48512, Nonbank Financial Intermediation (NBFI or "Shadow Banking") and Capital Markets Policy, by Eva Su.

- **Banks.** Banks have increased their ownership share of the Treasury securities market in recent two decades. In addition to the outright ownership of Treasury securities, many primary dealers are owned by bank holding companies.[74] The willingness and capability of these dealers to intermediate Treasury securities transactions are essential for banks' Treasury market role.
- **Stablecoins.** As of 2025, stablecoin issuers have become major holders and purchasers of short-term Treasury securities. The growth of stablecoin issuers, especially following the new law (P.L. 119-27) that has the potential to foster stablecoins' broader adoption, may alter Treasury market risk dynamics and amplify financial stability concerns.[75]

Hedge Fund Leverage and Basis Trade

Leverage generally refers to an entity's use of borrowed funds or derivatives to multiply possible risks and returns. A *basis trade* is a trading strategy that seeks to exploit the difference in prices between a derivative and its underlying instrument. For example, a basis trade in Treasury securities could involve shorting Treasury futures while buying the underlying Treasury securities using borrowed money (often via the repo market). Such an arbitrage technique, in theory, is low risk if an asset's different prices in different markets eventually converge. Specifically, an arbitrager could start by selling the higher-priced asset in one market and buying the same (lower-priced) asset in a different market. When the prices converge, it could capture a profit by selling the formerly lower-priced asset and buying back the formerly higher-priced asset. Because the price differentials are typically very small, a hedge fund must build a large position through borrowed money to make a meaningful profit. Past hedge fund failures, such as the collapse of Long-Term Capital Management in 1998 that prompted a government-coordinated private sector rescue, illustrate the potential risks to such a strategy.[76]

Basis trades support Treasury market functionality by helping align the prices of Treasury futures with the fair value of the underlying Treasury securities and by generating demand for Treasury securities, thereby enhancing market liquidity.[77] However, some research indicates that, because the basis trade uses high leverage, the rapid unwinding of basis trades by hedge funds could amplify Treasury market stress in crisis situations.[78]

[74] See the list of primary dealers at Federal Reserve Bank of New York, *Primary Dealers*.

[75] Iñaki Aldasoro et al., "Stablecoin Growth—Policy Challenges and Approaches," Bank for International Settlements, July 11, 2025, https://www.bis.org/publ/bisbull108.pdf.

[76] President's Working Group on Financial Markets, *Hedge Funds, Leverage, and the Lessons of Long-Term Capital Management*, April 1999, https://ypfsresourcelibrary.blob.core.windows.net/fcic/fcic-docs/1999-04-00%20Hedge%20Funds,%20Leverage,%20and%20the%20Lessons%20of%20Long-Term%20Capital%20Management%20(PWG%20on%20Financial%20Markets).pdf.

[77] Glicoes et al., "Quantifying Treasury Cash-Futures Basis Trades."

[78] Ayelen Banegas et al., "Sizing Hedge Funds' Treasury Market Activities and Holdings," Federal Reserve, October 6, 2021, https://www.federalreserve.gov/econres/notes/feds-notes/sizing-hedge-funds-treasury-market-activities-and-holdings-20211006.html.

Threats to Treasury Security "Safe Haven" Status

The U.S. government as the issuer of Treasury debt exposes its Treasury securities investors to credit risks. As with other bond instruments, the financial health of the United States and its ability to repay its debts could influence Treasury yields—the return investors require for lending money—and affect investors' willingness to participate in Treasury markets, which in turn impacts Treasury market depth and liquidity.

U.S. Treasury securities traditionally hold the risk-free benchmark securities status and are seen as a "safe haven." This status provides the country with low borrowing costs and ample market participation from trusting investors to create the world's deepest and most liquid market. However, as risk factors change and threats to the Treasury security's safe haven status start to emerge, the market faces certain short-term and long-term implications.

In the short term, even as the United States lost its triple-A credit rating from all major credit rating agencies (between 2011 and 2025)—confirming that U.S. Treasury securities are not literally risk-free—the downgrades caused only minor market volatility, because Treasuries remain among the safest investment options relative to alternatives.[79] But this could change if investors begin to question the U.S. Treasury security's safe haven status and diversify assets away from U.S. debt.[80]

In the long term, the United States faces the ultimate question of the size and growth rate of the debt, the costs of servicing the debt, the capability to refinance the debt, and the methods to generate cash to repay the debt.[81] Regarding the probability of a disruptive fiscal crisis, the Congressional Budget Office notes that no specific tipping point or debt ratio could reliably signal when such a crisis might occur or when debt servicing costs may become unsustainable.[82] However, major shifts in broad investor sentiment about Treasury debt sustainability have the potential to trigger market disruptions.

Policy Options for Enhancing Treasury Market Resiliency

Policy discussions about the Treasury securities market focus on diagnosing the causes of market disruptions and identifying potential methods to prevent or mitigate the related risks. Various government agencies, industry practitioners, and think tanks have made a number of recommendations to address these challenges, some of which are broadly described below.[83] This section also incorporates examples of agency actions to address the policy concerns and their implementation status. Critics of these recommendations assert that some proposals would entail undue government intervention and impose additional costs on market participants. Policy

[79] Fidelity Viewpoints, "Does the US Debt Downgrade Matter for Investors?," May 20, 2025, https://www.fidelity.com/learning-center/trading-investing/us-debt-downgrade.

[80] Jorge Valero and Laura Noonan, "Europe's Financial Watchdogs Question Treasuries' Haven Status," *Bloomberg*, April 17, 2025, https://www.bgov.com/news/SUT4EBDWRGG0.

[81] For more on deficit spending, see CRS Report R47877, *Deficit Spending During Higher Inflation and Interest Rates: Implications for Debt Sustainability*, by Lida R. Weinstock.

[82] Congressional Budget Office, *The Long-Term Budget Outlook: 2025 to 2055*, March 2025, https://www.cbo.gov/publication/61270.

[83] For example, see earlier recommendations from Group of Thirty, *U.S. Treasury Markets Steps Toward Increased Resilience*; and Inter-Agency Working Group on Treasury Market Surveillance, *Recent Disruptions and Potential Reforms in the U.S. Treasury Market*.

options for Congress to consider—either through legislative actions or agency oversight—include the following.

Expand Market Capacity

The options to expand market capacity include (1) reduce disincentives for dealer intermediation by decreasing bank capital requirements for Treasury securities and (2) introduce new trading venues, such as all-to-all trading, for Treasury securities.

Bank Capital Requirements

Banks face capital requirements that are regulatory standards determining how much capital buffer a bank must hold relative to its assets (especially risk-weighted assets) in order to absorb losses, thus protecting depositors and maintaining financial system stability.[84] In the context of bank capital requirements, the word *capital* generally refers to a bank's own money (e.g., equity and retained earnings) and differs from capital as seen in "capital markets," where it typically refers to funds raised from investments.[85]

There have long been concerns regarding certain bank capital requirements' effects on Treasury markets—in particular, the supplementary leverage ratio (SLR), introduced as part of the response to the 2008 global financial crisis.[86] The SLR requires banks to hold capital against low-risk assets, such as Treasury securities in some circumstances.[87] Because of the costs associated with holding bank capital, this requirement could disincentivize banks from engaging in Treasury market intermediation. Proponents of SLR reform believe that by reducing the bank capital requirements on Treasury securities, the market could receive much needed expansion in dealer capacity. Opponents argue that the SLR was designed to impose a floor on a bank's leverage, so the reduction of what they view as a critical safeguard may harm financial stability.[88]

In June 2025, federal banking regulators issued a notice of proposed rulemaking on the enhanced SLR.[89] The proposal aims to reduce disincentives for certain largest banks—specifically those categorized as *global systemically important banks*—and their depository institution subsidiaries to participate in Treasury markets.[90] Supporters state that the proposal could increase banks' capacity to engage in low-risk activities, such as Treasury market intermediation.[91] Critics argue that while enhancing Treasury market resilience is an important objective, the proposal could

[84] For more on bank capital requirements, see CRS Report R47447, *Bank Capital Requirements: A Primer and Policy Issues*, by Andrew P. Scott and Marc Labonte.

[85] For more on capital markets, see CRS In Focus IF11062, *Introduction to Financial Services: Capital Markets*, by Eva Su.

[86] Liang, *Testimony for the House Committee on Financial Service's Task Force*.

[87] For more on supplementary leverage ratio requirements, see CRS In Focus IF13078, *Bank Capital Requirements and Treasury Market Resiliency*, by Marc Labonte.

[88] Sen. Elizabeth Warren, letter to Vice Chair Bowman, Acting Comptroller Hood, and Acting Chairman Hill, June 23, 2025, https://www.banking.senate.gov/imo/media/doc/Warren%20letter%20to%20regulators%20on%20eSLR.pdf.

[89] OCC, Board of Governors of the Federal Reserve System, and Federal Deposit Insurance Corporation, *Regulatory Capital Rule*.

[90] OCC, "Notice of Proposed Rulemaking: Modifications to the Enhanced Supplementary Leverage Ratio Standards for U.S. Global Systemically Important Bank Holding Companies and Their Subsidiary Depository Institutions," June 27, 2025, https://www.occ.gov/news-issuances/bulletins/2025/bulletin-2025-14.html.

[91] For example, Travis Hill, Acting Chairman, Federal Deposit Insurance Corporation, "Proposal to Modify the Enhanced Supplementary Leverage Ratio," June 27, 2025, https://www.fdic.gov/news/speeches/2025/proposal-modify-enhanced-supplementary-leverage-ratio.

increase risks to the banking system without the certainty of improving Treasury market resiliency.[92]

All-to-All Trading

All-to-all trading is a type of transaction within which any market participant could trade directly with other market participants through a range of trading protocols.[93] A Treasury market all-to-all trading protocol could enable participants (e.g., asset managers, dealers, and nonbank liquidity providers) to trade directly with others without an intermediary, thus reducing market intermediation constraints, especially during market distress.[94] In addition, all-to-all trading could increase competition, which often leads to lower transaction costs, and it may improve trade data transparency, further promoting competition and efficiency.[95] Some analysis indicates that data transparency made possible by other parts of the Treasury market regulatory reform, such as central clearing, could make wider adoption of all-to-all trading more likely.[96]

The implementation of this policy option, whether through the expansion of the existing protocols or the development of new ones, faces clearing and settlement challenges.[97] Other challenges include the suitability of an all-to-all venue for less liquid Treasury securities and the adequacy of price transparency to support the venue. This market structure innovation is still in the early stages of development, and it is difficult to predict how a new venue would meet the needs of Treasury market liquidity providers.

Central Clearing

Treasury securities clearing and settlement processes are back-office functions that involve confirming trade details between the buyers and sellers (clearing) and transferring the securities ownership and funds between the parties (settlement). Treasury securities clearing can be either done bilaterally or centrally cleared (**Figure 5**).[98]

[92] Federal Reserve, "Statement on Enhanced Supplementary Leverage Ratio Proposal by Governor Michael S. Barr," press release, June 25, 2025, https://www.federalreserve.gov/newsevents/pressreleases/barr-statement-20250625.htm.

[93] Ellen Correia Golay, "U.S. Treasury Market Structure and All-to-All Trading in the U.S. Treasury Market," Federal Reserve Bank of New York, November 2023, https://www.bankofcanada.ca/wp-content/uploads/2024/01/us-treasury-market-structure.pdf.

[94] Alain Chaboud et al., *All-to-All Trading in the U.S. Treasury Market*, Federal Reserve Bank of New York, February 2025, https://www.newyorkfed.org/medialibrary/media/research/epr/2025/EPR_2025_all-to-all_chaboud.pdf; and Libby Cantrill et al., "How Can Policymakers Improve the Functioning of the U.S. Treasury Market?," VettaFi, September 12, 2022, https://www.advisorperspectives.com/commentaries/2022/09/12/how-can-policymakers-improve-the-functioning-of-the-u-s-treasury-market.

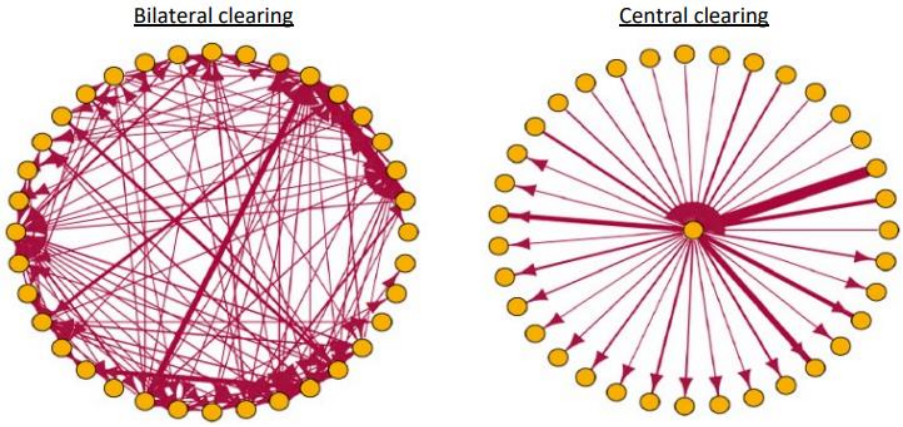
[95] Chaboud et al., *All-to-All Trading in the U.S. Treasury Market*.

[96] Inter-Agency Working Group for Treasury Market Surveillance, *Enhancing the Resilience of the U.S. Treasury Market: 2022 Staff Progress Report*, November 10, 2022, https://home.treasury.gov/system/files/136/2022-IAWG-Treasury-Report.pdf. For more on central clearing, see "Central Clearing" section of this report.

[97] Chaboud et al., *All-to-All Trading in the U.S. Treasury Market*.

[98] DTCC, "U.S. Treasury Clearing," https://www.dtcc.com/ustclearing/ficc.

Figure 5. Illustrative Example of Bilateral and Central Clearing



Source: Bank of England, "The Potential Impact of Broader Central Clearing on Dealer Balance Sheet Capacity: A Case Study of UK Gilt and Gilt Repo Markets," June 2023, https://www.bankofengland.co.uk/-/media/boe/files/working-paper/2023/the-potential-impact-of-broader-central-clearing-on-dealer-balance-sheet-capacity.pdf.

The benefits of central clearing include reduced counterparty risk, increased transparency, and expanded balance sheet capacity for intermediaries. Specifically, in a centrally cleared transaction, the central counterparty (CCP) is the single counterparty to both the seller and the buyer. Relative to the bilateral counterparties, the CCP counterparty risk is generally lowered by the CCP's regulated risk management practices and margin requirements.[99] The CCP provides netting services between participants, potentially reducing settlement flows, balance sheet exposures, and capital requirements.[100] *Netting* refers to the CCP handling multiple buying and selling transactions of its members, resulting in a single net position for each participant. In addition, regulators could gain more visibility into clearing and settlement flows through CCPs: As more Treasury market activities flow through CCPs, regulators could gain enhanced risk monitoring capacity.[101]

The primary policy concern regarding central clearing is concentration risk. CCPs, as vital service infrastructures, could transmit vulnerabilities and consolidate risk exposure to a single point of contact. In a highly concentrated CCP ecosystem, the failure of one or a few firms could create systemic risk and financial instability.[102] In addition, some observers question the capability of central clearing to cure Treasury market disruptions and the potential of traders to evade central clearing by structuring transactions outside of the mandated regulatory realm.[103] Some research also indicates that central clearing's perceived netting benefits—which are associated with expanding dealer balance sheet capacity and reducing capital requirements—are actually

[99] DTCC, "FICC GSD Risk Management," https://www.dtcc.com/ustclearing/risk-management. Also see "Regulatory Frameworks" section of this report.

[100] Federal Reserve, *Assessment of the Compliance of the Fedwire Securities Service with the Recommendations for Securities Settlement Systems*, July 2014, p. 6, https://www.federalreserve.gov/paymentsystems/files/fedsecs_compliance.pdf; and Yuliya Baranova et al., "Central Clearing and the Functioning of Government Bond Markets," *Bank Underground* (Bank of England), September 14, 2023, http://bankunderground.co.uk/2023/09/14/central-clearing-and-the-functioning-of-government-bond-markets.

[101] Michelle Neal, "Central Clearing in the U.S. Treasury Market: The Why and the How," remarks at the Treasury Clearing Forum: The Evolution of Agency Clearing, Futures Industry Association, New York City, October 15, 2024, https://www.newyorkfed.org/newsevents/speeches/2024/nea241015.

[102] Ketan Patel, "How Concentrated Is the Clearing Ecosystem and How Has It Changed Since 2007?," Federal Reserve Bank of Chicago, July 2024, https://www.chicagofed.org/publications/chicago-fed-letter/2024/497.

[103] Yesha Yadav and Josh Younger, "Central Clearing in the US Treasury Market," January 14, 2025, https://ssrn.com/abstract=5099565.

limited.[104] Furthermore, the research points out that a sizeable portion of the bilaterally cleared activity would not be nettable even when centrally cleared.[105] Some market participants also view compliance costs and the potential loss of liquidity for non-centrally cleared trades as drawbacks to central clearing.[106]

Mandatory Central Clearing

As previously discussed, in December 2023, the SEC finalized a rule to generally mandate central clearing of Treasuries as well as repo and reverse repo agreements collateralized by Treasury securities.[107] With the awareness of the CCP concentration risk, the SEC adopted the rule to expand central clearing in the U.S. Treasury market, potentially increasing CCP concentration risks. This policy decision reflects the difficulty in prioritization and trade-offs. In this case, the SEC viewed the benefits of having a CCP—including enhanced risk management, settlement flow, and risk transparency—to outweigh its concentration and other risks.[108] On February 25, 2025, the SEC extended compliance dates for the final rule to provide additional time for participants to implement and validate operational changes.[109] The operational challenges associated with implementing the SEC's central clearing rule include determining the scope and application of the rule's inter-affiliate exemption (e.g., how large firms' internal trades among their affiliates are treated) and clarifying the rule's extraterritorial scope (e.g., the clearing requirements for trades involving non-U.S. firms), among other issues.[110] The SEC is engaging with the industry through staff guidance, FAQs, and other communications. It aims to support a smooth Treasury clearing transition that avoids unintended disruptions.[111]

Enhance Treasury Market Oversight

Certain Treasury market participants and infrastructures are not subject to the same type of regulatory oversight that the rest of the securities markets are. As previously mentioned, the SEC has taken selected rulemaking initiatives to enhance Treasury market oversight. Some of these initiatives were subsequently withdrawn by the agency or vacated by judicial action. Congress may review these efforts to determine whether legislative actions are warranted to adjust certain agency rulemaking.

SEC Rulemaking on Treasury Broker-Dealers and ATSs

In 2020, the SEC proposed extending Regulation ATS to the Treasury securities market.[112] Under the proposal, all government securities ATSs would have been required to comply with

[104] David Bowman et al., "Balance-Sheet Netting in U.S. Treasury Markets and Central Clearing," Federal Reserve, June 2024, https://doi.org/10.17016/FEDS.2024.057.

[105] Bowman et al., "Balance-Sheet Netting in U.S. Treasury Markets and Central Clearing."

[106] State Street, "Answers to your FAQs on the US Treasury Clearing Mandate," May 2025, https://www.statestreet.com/br/en/insights/central-clearing-mandate-faqs.

[107] SEC, "SEC Adopts Rules to Improve Risk Management."

[108] SEC, "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," 89 *Federal Register* 2714, January 16, 2024, https://www.federalregister.gov/documents/2024/01/16/2023-27860/standards-for-covered-clearing-agencies-for-us-treasury-securities-and-application-of-the.

[109] SEC, "SEC Extends Compliance Dates."

[110] Uyeda, "Update on Working Toward Treasury Clearing Implementation."

[111] SEC, "Treasury Clearing Implementation," https://www.sec.gov/securities-topics/treasury-clearing-implementation.

[112] SEC, "SEC Proposes Rules to Extend Regulations ATS and SCI."

Regulation ATS, among other things. The proposal included new requirements such as written safeguards and procedures to protect confidential subscriber information and permission for SEC surveillance and examination of these ATSs. The proposal would have also required an ATS with significant Treasury securities market share to provide fair access to trading. The proposal included a new public disclosure form, Form ATS-G, for government securities ATSs. The SEC formally withdrew the proposed rule in June 2025.[113] The SEC's spring 2025 rulemaking agenda, released in August 2025, includes a proposed rule titled "Enhanced Oversight for U.S. Government Securities Traded on Alternative Trading Systems."[114]

In 2024, the SEC adopted new "dealer rules" to require market participants that routinely conduct Treasury transactions—including certain PTFs—to register as broker-dealers and be subject to stricter regulation.[115] Specifically, anyone who engages in buying and selling securities or government securities "as a part of a regular business" would have been required to register as a dealer or government securities dealer.[116] In February 2025, the SEC dropped its appeal of a court ruling that vacated the dealer rules.[117] The court noted that the rules exceeded the SEC's statutory authority.

Critics argue that the rules could discourage PTFs and other liquidity providers' participation in markets and thus potentially reduce market liquidity.[118] Additional policy debates include whether certain digital asset market participants, who are regular liquidity providers for digital asset securities, should be required to register as dealers under the rules.[119] Proponents of the dealer rules argue that by dismissing the rules, the SEC ignored the laws enacted by Congress and harmed investors, businesses, and the capital markets.[120] The SEC's spring 2025 rulemaking agenda includes a proposed rule titled "Definition of Dealer."[121]

[113] SEC, "Amendments Regarding the Definition of 'Exchange' and Alternative Trading Systems (ATSs) That Trade U.S. Treasury and Agency Securities, National Market System (NMS) Stocks, and Other Securities," June 12, 2025, https://www.sec.gov/rules-regulations/2025/06/s7-02-22#33-11377final.

[114] Office of Information and Regulation Affairs, "Agency Rule List—Spring 2025: Securities and Exchange Commission," https://www.reginfo.gov/public/do/eAgendaMain?operation=OPERATION_GET_AGENCY_RULE_LIST&currentPub=true&agencyCode&showStage=active&agencyCd=3235.

[115] SEC, "SEC Adopts Rules to Include Certain Significant Market Participants."

[116] SEC, "Further Definition of 'As a Part of a Regular Business' in the Definition of Dealer and Government Securities Dealer in Connection with Certain Liquidity Providers," 89 *Federal Register* 14938, February 29, 2024, https://www.federalregister.gov/documents/2024/02/29/2024-02837/further-definition-of-as-a-part-of-a-regular-business-in-the-definition-of-dealer-and-government.

[117] Anna Pinedo et al., "SEC Drops Appeal of 'Dealer Rule' Litigation," *Mayer Brown*, February 21, 2025, https://www.freewritings.law/2025/02/sec-drops-appeal-of-dealer-rule-litigation/.

[118] Sullivan and Cromwell, "SEC Redefines 'Dealer' to Expand Registration Requirements," March 1, 2024, https://www.sullcrom.com/SullivanCromwell/_Assets/PDFs/Memos/SEC-Redefines-Dealer-Expand-Registration-Requirements.pdf.

[119] SEC Commissioner Hester M. Peirce, "Dealer, No Dealer? Statement on Further Definition of 'As a Part of a Regular Business' in the Definition of Dealer and Government Securities Dealer in Connection with Certain Liquidity Providers," February 2, 2024, https://www.sec.gov/newsroom/speeches-statements/peirce-statement-dealer-trader-020624.

[120] SEC Commissioner Caroline Crenshaw, "'Tis the Season for Dismissals: Statement on Ending 'Dealer' Lawsuits," May 22, 2025, https://www.sec.gov/newsroom/speeches-statements/crenshaw-statement-dealer-lawsuits-052225.

[121] Office of Information and Regulation Affairs, "Agency Rule List—Spring 2025: Securities and Exchange Commission."

Reduce Hedge Fund Basis Trade Leverage

One common method hedge funds use to borrow money and increase leverage, especially for the Treasury basis trades, is the "repo chain" process. As previously discussed, repo allows a hedge fund to sell its securities to a broker-dealer while simultaneously agreeing to purchase the securities back at a future date at a higher price that would reflect a return similar to the implied interest rates of a borrowing.[122] Securities broker-dealers make money in such transactions by receiving the difference between cash lenders and cash borrowers in the economic sense. Repo transactions may involve *haircuts*, which is a form of over-collateralization to protect lenders from losses. Haircuts reduce the borrowing amount against a given collateral's market value.

In theory, without haircuts and controlled for other conditions, a hedge fund could create *infinite* leverage.[123] To start this hypothetical process, a hedge fund could purchase securities using its own funds and repo these securities for cash. It could then use the cash raised from repo to buy more securities and repo these securities again for cash and continue this process indefinitely to create infinite leverage.

In practice, repos may involve a haircut that limits (among other real-world constraints) how much leverage can actually be achieved. Nevertheless, the infinite hypothetical illustrates how, in segments of the repo market where haircuts are particularly low or zero, a high amount of leverage can be achieved. For example, a Federal Reserve research note indicates that for the Treasury securities market, hedge funds achieved as high as an aggregate 56-to-1 leverage ratio on $553 billion Treasury repo borrowing as of December 2022.[124] If a minimum haircut of 2% were applied to all repos while the hedge fund's capital supporting the repo stays the same, the leverage ratio would reduce to 25-to-1, and the hedge fund's Treasury repo borrowing would reduce to $247 billion.[125] This example demonstrates the impact of haircuts to leverage in repo chain transactions.

Minimum Repo Haircuts

Given the large-scale use of repo chain borrowing by hedge funds in Treasury market basis trades,[126] potential adjustments to repo haircut requirements could be a powerful policy tool to control leverage creation. One policy option reportedly discussed amongst financial regulators is a potential 2% haircut requirement on hedge fund Treasury repo borrowings to curtail leverage.[127]

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[122] For definition of *broker-dealer*, see SEC, "What Is a Broker-Dealer?," https://www.sec.gov/files/oasb-broker-dealer-building-block.pdf. For more on securities lending and repo, see Viktoria Baklanova et al., "Reference Guide to U.S. Repo and Securities Lending Markets," Federal Reserve Bank of New York, December 2015, https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr740.pdf.

[123] For certain non-centrally cleared Treasury repo transactions, the haircuts or margin requirements may be zero. Samuel Hempel et al., "Why Is So Much Repo Not Centrally Cleared?," Office of Financial Research, May 12, 2023, https://www.financialresearch.gov/briefs/files/OFRBrief_23-01_Why-Is-So-Much-Repo-Not-Centrally-Cleared.pdf.

[124] Ayelen Banegas and Phillip Monin, "Hedge Fund Treasury Exposures, Repo, and Margining," *FEDS Notes*, September 8, 2023, https://www.federalreserve.gov/econres/notes/feds-notes/hedge-fund-treasury-exposures-repo-and-margining-20230908.html.

[125] Ayelen Banegas and Phillip Monin, "Hedge Fund Treasury Exposures, Repo, and Margining."

[126] Claudio Bassi et al., "Financial Stability Risks from Basis Trades in the US Treasury and Euro Area Government Bond Markets," European Central Bank, May 2024, https://www.ecb.europa.eu/press/financial-stability-publications/fsr/focus/2024/html/ecb.fsrbox202405_03~09cad3d18d.en.html.

[127] Lydia Beyoud and Katanga Johnson, "US Weighs Leaning on Banks to Curb Hedge Fund Leveraged Trading," *Bloomberg*, October 19, 2023, https://www.bloomberg.com/news/articles/2023-10-19/us-weighs-leaning-on-banks-to-curb-hedge-fund-leveraged-trading.

The Financial Stability Board, an international intergovernmental financial group that focuses on financial stability and systemic risk issues, published a report on leverage in nonbank financial intermediation.[128] The report includes a recommendation on Treasury securities repo haircuts for nonbank financial intermediaries, which include hedge funds. The report states that, "where appropriate based on the risks they identify, authorities should consider minimum haircuts or initial margin requirements for non-centrally cleared [securities financing transactions] backed by government securities, when used by nonbanks."[129] In areas that display high leverage and high competition among repo dealers, or mispricing of certain risks, the compressed haircuts could be close to or even at zero. Particularly in such situations, the minimum haircuts could be a policy option to mitigate financial stability risks.[130]

Opponents of the minimum haircut proposal challenge the merits of the proposal and certain related technical calculations. For example, an interest group states that the haircuts may disincentivize basis trade activities that could benefit Treasury markets' liquidity and yields.[131] In addition, the group states that zero-haircut repos are not as prevalent as perceived. Other opponents argue that certain Office of Financial Research (OFR) haircut-related findings could contain misinterpretation that may cause policymakers to draw false assumptions.[132] In August 2025, the OFR published a follow-up study to its previous pilot study that indicated that an updated calculation that continues to show a high percentage of outstanding non-centrally cleared bilateral repo had zero haircuts.[133] Furthermore, a portion of them had negative haircuts.

Federal Government Backstops

One important policy consideration for Treasury market resilience relates to federal government crisis response and the expansion of market-making capacity through the expansion of existing or the creation of new emergency facilities for Treasury markets. Such facilities could provide permanent, broad, and direct access to federal financing in an effort to ensure intermediaries' confidence in market making, especially during times of financial crisis. However, they could also generate moral hazard concerns, commonly referring to increased risk-taking based on expectations of future assistance in the event of a negative outcome.[134] Examples of such facilities

[128] Financial Stability Board, *Leverage in Nonbank Financial Intermediation*, July 9, 2025, https://www.fsb.org/uploads/P090725-1.pdf. For more on nonbank financial intermediation, see CRS Report R48512, *Nonbank Financial Intermediation (NBFI or "Shadow Banking") and Capital Markets Policy*, by Eva Su.

[129] Financial Stability Board, *Leverage in Nonbank Financial Intermediation*, p. 20.

[130] Financial Stability Board, *Leverage in Nonbank Financial Intermediation*, pp. 20-21; and Michael Grill, "Repo Haircuts: Market Practices and the Impact of Minimum Requirements on Leverage," *Finance Research Letters* 71 (January 2025), https://www.sciencedirect.com/science/article/abs/pii/S1544612324015137?via%3Dihub.

[131] Committee on Capital Markets Regulation, "Leverage in Non-Bank Financial Intermediation: Consultation Report: Response to Consultation," https://www.fsb.org/uploads/CCMR.pdf.

[132] Alice Atkins, "Citadel Says OFR Repo Data Is Misguiding Regulators on Leverage," *Bloomberg*, May 15, 2025, https://www.bgov.com/news/SWAS4NT1UM0W; and Hempel et al., "Why Is So Much Repo Not Centrally Cleared?"

[133] Compared to the previous pilot study that indicated 70% of outstanding non-centrally cleared bilateral repo had zero haircuts, the updated study indicated that 56% of such repo had zero haircuts. Ashlyn Cenicola et al., "Are Zero-Haircut Repos as Common as Advertised?," *The OFR Blog*, OFR, August 12, 2025, https://www.financialresearch.gov/the-ofr-blog/2025/08/12/are-zero-haircut-repos-as-common-as-advertised.

[134] Padma Sharma, "Government Assistance and Moral Hazard: Evidence from the Savings and Loan Crisis," Federal Reserve Bank of Kansas City, August 11, 2022, https://www.kansascityfed.org/documents/8961/EconomicReviewV107N3Sharma.pdf; and Brahim Guizani, "Quantitative Easing Policy and Moral Hazard Behaviour of U.S. Banks," December 29, 2021, https://ssrn.com/abstract=3995751. For examples of stigma and moral hazard in using federal government emergency facilities, see David Arseneau et al., "Central Bank Liquidity Facilities Around the World," Federal Reserve, February 26, 2025, https://www.federalreserve.gov/econres/notes/feds-notes/central-bank-liquidity-facilities-around-the-world-20250226.html.

include the existing Federal Reserve's Standing Repo Facility (SRF) and a proposed basis purchase facility (BPF).

Standing Repo Facility

Discussions regarding the establishment of the SRF appeared around 2014.[135] Some observers suggested that the government establishment a permanent facility to provide access to repo financing for Treasury securities for a broad range of market participants.[136] The Fed had been discussing an SRF since before the September 2019 Treasury repo event.[137] In 2021, the Fed announced the launching of the SRF as well as a repo facility for international participants.[138]

The SRF provides an emergency backstop and smooths market functioning for Treasury markets.[139] The facility provides financing with costs and haircuts at levels that would make it useful during market stress but uneconomical to access in normal conditions. Some features of the SRF include (1) a permanent facility instead of ad hoc interventions that would provide complete confidence to market makers and (2) access to funding by a broad range of participants. The rationale for broadened access is that the Fed would not have to depend on banks and primary dealers—who have more direct access to Fed liquidity during normal and ad hoc situations—to intermediate funding for others. The direct provision of funds to additional market intermediaries could alleviate the constraints imposed by banks and primary dealers' willingness and balance sheet capacity, especially during crisis situations. The broadened access could also draw concerns, such as moral hazard and regulatory safeguards of the participants.

Basis Purchase Facility

Four academics issued a report through a public policy organization to propose another emergency program at the Federal Reserve that would purchase Treasury securities from hedge funds during market stress to help unwind leveraged positions while hedging this purchase with an offsetting sale of Treasury futures.[140]

This BPF proposal more specifically targets the unwinding of hedge fund basis trade positions. Unlike other proposals that focus solely on outright support to Treasury bonds, the BPF suggests the purchasing of Treasury securities and simultaneously hedging this position with an offsetting sale of futures—taking both sides of the hedge fund basis trade to help unwind the positions.[141]

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[135] Joseph Gagnon, "Monetary Policy with Abundant Liquidity: A New Operating Framework for the Federal Reserve," Peterson Institute for International Economics, January 2014, https://www.piie.com/publications/policy-briefs/monetary-policy-abundant-liquidity-new-operating-framework-federal.

[136] Group of Thirty, *U.S. Treasury Markets Steps Toward Increased Resilience*, p. 7.

[137] David Andolfatto and Jane Ihrig, "Why the Fed Should Create a Standing Repo Facility," *On the Economy Blog*, Federal Reserve Bank of St. Louis, March 6, 2019, https://www.stlouisfed.org/on-the-economy/2019/march/why-fed-create-standing-repo-facility.

[138] Federal Reserve, "Statement Regarding Repurchase Agreement Arrangements," press release, July 28, 2021, https://www.federalreserve.gov/newsevents/pressreleases/monetary20210728b.htm.

[139] Federal Reserve, "Standing Repurchase Agreement (Repo) Facility," https://www.federalreserve.gov/monetarypolicy/standing-overnight-repurchase-agreement-facility.htm; and Gara Afonso et al., "The Fed's Latest Tool: A Standing Repo Facility," *Liberty Street Economics*, Federal Reserve Bank of New York, January 13, 2022, https://libertystreeteconomics.newyorkfed.org/2022/01/the-feds-latest-tool-a-standing-repo-facility.

[140] Anil Kashyap et al., "Treasury Market Dysfunction and the Role of the Central Bank," Brookings Institution, March 27-28, 2025, https://www.brookings.edu/wp-content/uploads/2025/03/4_Kashyap-et-al.pdf.

[141] Kashyap et al., "Treasury Market Dysfunction and the Role of the Central Bank."

As previously mentioned, moral hazard is a significant policy concern associated with federal government emergency backstops. The authors of the BPF proposal paper argue that the BPF's effects on a "Fed put" (i.e., market participants' anticipation that the Fed would provide bailout during financial crisis) is less severe than alternative options, such as unhedged bond purchases.[142] In addition, the proposal involves the federal government stopping short of fully insulating the hedge funds from losses while limiting broader spillovers.[143]

Treasury Securities Buybacks

Changes in the Treasury securities supply could affect the securities' prices and liquidity. Policymakers could evaluate the methods to alter the volume of Treasury securities in circulation, such as through the Treasury Department's buyback program, to facilitate market intervention.[144]

Department of Treasury Buyback Program

The use of Treasury buybacks (also referred to as debt repurchases or debt redemptions) to manage Treasury securities supply is not new. However, in earlier periods, the buybacks were generally focused on managing budget surpluses. For example, the Treasury Department conducted two major debt buybacks in the 1920s and between March 2000 and April 2002 to redeem securities to avoid reductions in auction sizes that could adversely affect liquidity.[145]

Following the "Dash for Cash" market event in March 2020,[146] the Treasury Department introduced the *liquidity support* buyback program in May 2024 to allow primary dealers to sell less-liquid off-the-run Treasury securities back to the Treasury Department in order to alleviate dealer balance sheet pressure and promote secondary market liquidity.[147] The program was revived in April 2025, during a period of market turbulence, to calm volatility.[148] The Treasury Department stated that it plans to "evaluate a broad range of possible enhancements such as:

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[142] *Fed put* generally refers to market participants' anticipation that the Fed would provide bailout to financial markets if prices fall sharply within a short period of time. *Fed put* could more specifically mean policy accommodation following poor stock returns. For more details, see Anna Cieslak and Annette Vissing-Jorgensen, *The Economics of the Fed Put*, National Bureau of Economic Research, March 2020, https://www.nber.org/system/files/working_papers/w26894/w26894.pdf.

[143] Kashyap et al., "Treasury Market Dysfunction and the Role of the Central Bank."

[144] Annmarie Hordern and Daniel Flatley, "Bessent Says Treasury Has Big Toolkit If Needed for Bonds," *Bloomberg*, April 14, 2025, https://www.bloomberg.com/news/articles/2025-04-14/bessent-says-treasury-has-big-toolkit-if-needed-for-bond-market; and Karishma Vanjani, "U.S. in No Rush to Boost Bond Auction Sizes for Refunding, Signals Changes to Buybacks," *Barron's*, April 30, 2025, https://www.barrons.com/articles/treasury-bonds-auction-refunding-buybacks-05bff7e6.

[145] Department of the Treasury, "Remarks by Assistant Secretary for Financial Markets Joshua Frost on Recent Progress by the Inter-Agency Working Group on Treasury Market Surveillance at the Federal Reserve Bank of New York's Annual Primary Dealer Meeting," May 8, 2024, https://home.treasury.gov/news/press-releases/jy2328.

[146] See "'Dash for Cash' in March 2020" section of this report for more details.

[147] *Off-the-run Treasury securities* refers to Treasury securities issued before the most recently issued securities. The most recently issued securities are called on-the-run securities. A Treasury security changes from on-the-run to off-the-run status as soon as the next issue of the same maturity is auctioned and issued. On-the-run Treasury securities are generally perceived as more liquid than off-the-run Treasury securities. For more details, see Paolo Pasquariello and Clara Vega, "The On-the-Run Liquidity Phenomenon," *Journal of Financial Economics* 92 (2009), https://webuser.bus.umich.edu/ppasquar/onofftherun.pdf. For more details on liquidity support Treasury buybacks, see Jing Zhou, "Testing the Liquidity Support Effects of the U.S. Treasury Buyback Program," International Monetary Fund, May 9, 2025, https://www.elibrary.imf.org/view/journals/001/2025/088/article-A001-en.xml.

[148] Daniel Flatley and Chris Anstey, "US Treasury Looks to Revamp Buyback Program After Recent Tumult," *Bloomberg*, April 30, 2025, https://www.bloomberg.com/news/articles/2025-04-30/us-keeps-long-term-debt-sales-guidance-may-enhance-its-buybacks.

changes to maximum purchase amounts, buyback operation scheduling and frequency, security eligibility, maturity bucket composition, execution process, and counterparty eligibility."[149]

The advantages of a Treasury buyback program include liquidity support (i.e., an opportunity for market participants to sell less-liquid off-the-run securities), cash management, refinancing of Treasury debt at lower interest rates, absorption of surplus cash, and control of maturity structure of the public debt.[150] One research paper states that the buyback program enhances the liquidity of the off-the-run Treasuries, suggesting that the program could be scaled up to address future market disruptions.[151]

The disadvantages of Treasury buybacks include (1) the Treasury Department would have to issue new securities to fund the buybacks, which may affect the new on-the-run auction sizes and yield levels; and (2) buybacks with different size and timing than the Treasury Department's routine operations may affect the agency's overall debt management strategy.[152]

Data Transparency and Reporting

Increased data transparency and reporting could enhance risk monitoring, risk mitigation, and asset pricing for Treasury markets as well as the financial system as a whole. Some observers believe that policymakers' ability to assess vulnerabilities and develop policy solutions are only as good as the data they have.[153] Because vulnerabilities are often revealed after market turmoil, some hope that with sufficient data, these costly stresses could be better diagnosed ex ante. Common general policy options to address data issues include (1) enhancing infrastructure to collect and disseminate data; (2) making more intensive use of existing data; (3) coordinating data sharing among different financial regulators; and (4) allocation of resources and funding toward data functions, such as the creation of designated use of appropriations toward data functions.

Data Collection Development Status and Perceived Gaps

Treasury secondary market data sources and their evolving implementation status include the following:

- FINRA's TRACE collects transaction data from dealers generally within 60 minutes following execution.[154] Since its inception in July 2002, TRACE's data collection scope and public transparency have expanded over time.[155] For

[149] Department of the Treasury, "Quarterly Refunding Statement of Acting Assistant Secretary for Financial Markets Brian Smith," April 30, 2025, https://home.treasury.gov/news/press-releases/sb0120.

[150] Treasury Direct, "Treasury Buybacks," https://treasurydirect.gov/auctions/announcements-data-results/buy-backs/buy-backs-old; and Treasury Borrowing Advisory Committee, "Treasury Buyback Program Effectiveness Assessment," February 4, 2025, https://home.treasury.gov/system/files/221/TBACCharge1Q12025.pdf.

[151] Zhou, "Testing the Liquidity Support Effects of the U.S. Treasury Buyback Program."

[152] Treasury Department, "Revisiting Treasury Buybacks," https://home.treasury.gov/system/files/221/TBACCharge2Q32022.pdf.

[153] For example, John Schindler, Secretary General, Financial Stability Board, "Building Bridges: The Case for Better Data and Coordination for the Non-Bank Sector," speech at the Eurofi Financial Forum 2024, Budapest, Hungary, September 12, 2024, https://www.fsb.org/2024/09/building-bridges-the-case-for-better-data-and-coordination-for-the-non-bank-sector.

[154] FINRA, "TRACE Reporting and Dissemination," https://www.finra.org/filing-reporting/trade-reporting-and-compliance-engine-trace/trace-reporting-timeframes.

[155] FINRA, "What Is TRACE and How Can It Help Me?," August 17, 2023, https://www.finra.org/investors/insights/what-is-TRACE.

example, banks started to report Treasury transactions to TRACE in 2022.[156] The data was initially mostly available to regulators as of 2017. Starting from March 2020, FINRA began to release certain aggregated data on a weekly basis to the public.[157] On February 13, 2023, the public release frequency increased to daily basis for certain trade data.[158]

- OFR adopted a final rule in 2024 to collect non-centrally cleared bilateral transactions in the U.S. repo market.[159] The daily reporting has begun as of July 2025, with limited waivers for certain data reporters.[160]
- The SEC mandatory central clearing requirements, once implemented, will bring enhanced visibility into centrally cleared transactions.[161]
- The SEC's Form PF reporting captures certain hedge fund Treasury gross exposure, balance sheet leverage, and repo borrowing data.[162] Qualifying hedge funds file certain statistics on a monthly basis, and some of the aggregated information is available publicly on a quarterly basis.[163] The compliance date for the SEC's Form PF reform, which expands hedge fund data collection, was extended to October 1, 2025.[164]

Although Treasury securities transaction-level data is reported into the TRACE system, some researchers argue for improvements at post-trade price transparency, which refers to trade prices and quantities shortly after each trade.[165] The argument focuses on post-trade data's ability to compare prices for promoting competition and future price improvements, but it could also enhance the conditions enabling all-to-all trade. In addition, the researcher argues for expanded public release of TRACE data to allow investors to better analyze their trade execution costs.[166] Opponents' concerns include the challenges associated with implementation costs and business

[156] FINRA, "Federal Reserve Depository Institution Reporting to TRACE," https://www.finra.org/filing-reporting/trace/federal-reserve-depository-institution-reporting.

[157] FINRA, "About TRACE Treasury Aggregate Statistics," https://www.finra.org/filing-reporting/trace/data/trace-treasury-aggregates/about; and Tobias Adrian et al., "U.S. Treasury Market Functioning from the GFC to the Pandemic," Federal Reserve Bank of New York, April 2025, https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr1146.pdf.

[158] FINRA, "Treasury Daily Aggregate Statistics—Files," https://www.finra.org/finra-data/browse-catalog/about-treasury/daily-file.

[159] OFR, "Non-Centrally Cleared Bilateral Repo Data," https://www.financialresearch.gov/data/collections/non-centrally-cleared-bilateral-repo-data.

[160] OFR, "Limited Waiver Policy for Certain NCCBR Category 2 Reporters," June 27, 2025, https://www.financialresearch.gov/data/collections/nccbr-limited-waiver/.

[161] SEC, "Standards for Covered Clearing Agencies."

[162] SEC, Form PF, https://www.sec.gov/files/formpf.pdf; OFR, Hedge Fund Monitor SEC Form PF, https://www.financialresearch.gov/hedge-fund-monitor/datasets/fpf; Ayelen Banegas and Phillip Monin, "Hedge Fund Treasury Exposures, Repo, and Margining," *Federal Reserve*, September 8, 2023, https://www.federalreserve.gov/econres/notes/feds-notes/hedge-fund-treasury-exposures-repo-and-margining-20230908.html.

[163] SEC, "Private Fund Statistics," https://www.sec.gov/data-research/data-visualizations/private-fund-statistics.

[164] SEC, "Further Extension of Form PF Amendments Compliance Date," press release, June 11, 2025, https://www.sec.gov/newsroom/press-releases/2025-86-further-extension-form-pf-amendments-compliance-date.

[165] Darrell Duffie, "How US Treasuries Can Remain the World's Safe Haven," *Journal of Economic Perspectives*, vol. 39, no. 2 (Spring 2025), https://www.aeaweb.org/articles?id=10.1257/jep.20241412.

[166] Duffie, "How US Treasuries Can Remain the World's Safe Haven."

system upgrades for data reporting purposes. Some dealers also voiced concerns about potential "front running" behavior that could hinder their ability to offer attractive prices.[167]

Coordination

Treasury market policy issues are multi-faceted, technically complex, and handled by a somewhat fragmented system involving multiple regulatory authorities (**Figure 3**). As such, coordination among different financial regulators as well as their engagements with the industry is important. In addition to standard federal financial regulatory oversight, the Inter-Agency Working Group for Treasury Market Surveillance (IAWG) and the Treasury Market Practice Group (TMPG) are two dedicated coordination bodies for Treasury markets.[168]

In 1992, the SEC, Treasury Department, and Federal Reserve formed the IAWG to strengthen interagency coordination and risk monitoring of the Treasury markets following an auction bidding scandal.[169] The current IAWG consists of staff from the SEC, Treasury Department, Federal Reserve, Federal Reserve Bank of New York (New York Fed), and CFTC.[170] In 2007, the New York Fed sponsored the creation of the TMPG to address a variety of "questionable trading practices" in the Treasury markets.[171] The TMPG is "composed of senior business managers and legal and compliance professionals from a variety of institutions—including securities dealers, banks, buy-side firms, market utilities, foreign central banks, and others."[172] Some other coordination efforts that are not specifically targeting Treasury markets may also impact Treasury market risk oversight. For example, the FSOC's Hedge Fund Working Group—an interagency staff-level working group for assessing hedge fund risks, activities, and interconnections with other market participants—could also provide assessments of Treasury market activities facilitated by hedge funds.[173]

[167] *Front running* refers to market participants potentially profit from executing a transaction ahead of a known, pending transaction. Front running is prohibited under securities law (15 U.S.C. §78j).

[168] Michelle Neal, "Collaboration Toward Increased Resilience of the Treasury Market," remarks at ISDA/SIFMA AMG Derivatives Trading Forum New York: The Path to Resilient Treasury Markets, New York City, September 21, 2023, https://www.newyorkfed.org/newsevents/speeches/2023/nea230921.

[169] Treasury Department, SEC, and Federal Reserve, *Joint Report on the Government Securities Market*, January 1992, https://home.treasury.gov/system/files/276/joint-report-on-the-government-securities-Market-1992.pdf.

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Formalized Coordination in Oversight

Inter-agency coordination faces many political and jurisdictional challenges that could hinder its efficiency and effectiveness.[174] Some observers argue that the fragmented regulatory framework weakens the Treasury market structure.[175] Research suggests that to enable more effective rulemaking, surveillance, and oversight, a formal consolidation of Treasury oversight under a single authority, such as the FSOC, might be considered.[176] Others see that the existing oversight system may not warrant changes because it utilizes specialized regulatory expertise and in-depth industry knowledge tailored to distinct market segments, which often operate under different dynamics (**Figure 3**). For example, capital markets and banking regulation segments of Treasury market activities are governed by fundamentally different principles. Merging these into a single authority would be complex, especially given the long-established regulatory structures that shape the current financial regulation system.

Author Information

Eva Su
Specialist in Financial Economics

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Disclaimer

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