News & Events

- Press Releases
- Public Statements & Remarks
- Events

Release Number 8873-24

CFTC's Global Markets Advisory Committee Advances 3 Recommendations

Commissioner Pham Lauds Recommendations to Support U.S. Treasury Markets Resiliency, T+1 Securities Settlement Transition, and Regulatory Clarity for Digital Assets

March 07, 2024

Washington, D.C. — The Commodity Futures Trading Commission's Global Markets Advisory Committee (GMAC), sponsored by Commissioner Caroline D. Pham, advanced three new recommendations to promote U.S. Treasury markets resiliency and efficiency, provide resources on the upcoming transition to T+1 securities settlement, and publish a first-ever digital asset taxonomy to support U.S. regulatory clarity and international alignment.

"A year ago, the relaunched GMAC set out to develop pragmatic solutions to address the most significant issues in our markets," Commissioner Pham said. "I'm proud of the real impact the GMAC continues to deliver to enhance resiliency and efficiency in global markets and ensure a level playing field. With this latest set of recommendations, the GMAC has now published a total of 11 recommendations spanning U.S. Treasury market liquidity, well-functioning repo and funding markets, exchange volatility controls, T+1 securities settlement, better collateral management, CCP default simulation, and improvement of trade reporting data to monitor systemic risk."

Commissioner Pham added, "In a major step forward, the digital asset taxonomy framework provides valuable foundational guidelines to further advance the discussion and promote U.S. regulatory clarity, and was extensively vetted by stakeholders such as regulatory authorities, financial institutions, asset managers, market infrastructures, and service providers. I'm grateful to all of the GMAC and Subcommittee members, especially the workstream leads, and the GMAC leadership team for their substantial work."

Each recommendation was approved without objection at the GMAC meeting Wednesday, March 6. The meeting also included a keynote presentation from Financial Stability Board (FSB) Secretary General John Schindler on the FSB's 2024 work program and priorities, a panel discussion on the impact of the Basel III endgame proposal on derivatives markets and access to clearing, and an update on the GMAC's earlier recommendation regarding appropriately calibrated swap block and cap sizes to enhance market liquidity and financial stability.

Recommendations

Global Market Structure Subcommittee Recommendation *- Inclusion of U.S. Treasury ETFs as Eligible Initial Margin Collateral*

The use of exchange traded funds (ETFs) that invest in U.S. Treasury bonds has dramatically increased in recent years. While standalone U.S. Treasury bonds can be used as initial margin (IM) collateral for uncleared swaps, ETFs that invest in them are not similarly eligible as collateral, despite being more diversified which can mitigate idiosyncratic risk.

During many historic volatile trading sessions, certain UST ETFs have acted globally as "shock absorbers," providing real-time prices and liquidity. Most notably, during the bond market volatility in 2020, volatility increased in U.S. Treasury bonds as dealers' balance sheets were constrained. During this time, many UST ETFs traded at tighter bid-ask spreads than their portfolio of underlying bonds. For example, dislocations in U.S. Treasuries caused the bid/ask spreads of "off-the-run" bonds with a maturity of 20+ years to widen to almost 20 times that of the iShares 20+ Year Treasury Bond ETF (TLT).

The inclusion of U.S. Treasury ETFs as eligible IM collateral under the CFTC Margin Rules for Covered Swap Entities would enhance the robustness and resilience of the collateral pipeline. This enhancement, driven by factors such as diversification, liquidity, efficiency, and market stability, could prove beneficial for end-users seeking a wider range of eligible IM, CSEs and the broader financial markets. Allowing UST ETFs as IM collateral could not only help safeguard CSEs from counterparty default, but also help reduce the overall risk in the financial system and limit the potential for contagion arising from uncleared swaps.

The GMAC recommends the CFTC expand the universe of liquid assets that can be posted as uncleared margin, specifically to include U.S. Treasury ETFs.

Technical Issues Subcommittee Recommendation *– Publication of Resource Document to Support Transition to T+1 Securities Settlement*

As the United States prepares to transition to next-day trade settlement (T+1) for securities in May 2024, the Subcommittee crafted a resource document to support market participants. The document details products covered by the transition to T+1, timelines for transition in various markets, and the benefits to the transition. The document also highlights the implications T+1 has for various markets – particularly foreign exchange markets, and discusses its impacts on transaction processes for various products, including cross-border impacts. Further, it provides a list of resources to help firms prepare for the transition.

Digital Asset Markets Subcommittee Recommendation *– Adoption of an Approach for the Classification and Understanding of Digital Assets*

A clear, consensus-driven approach to classifying assets and the functions they serve underpins robust markets and effective regulation. The evolving digital asset ecosystem has led many to develop proprietary taxonomies to classify digital assets and their related technology. In recognition of this progress, the Subcommittee has engaged digital asset stakeholders across the broader digital asset ecosystem to build a common approach for the classification and understanding of digital assets.

This approach aims to set out consistent language for participants in the digital asset ecosystem to promote innovation, identify and address risk considerations, and enable effective regulatory understanding. With this objective in mind, the approach builds upon the considerable classification efforts of global prudential standard setters and regional authorities, including the Bank for International Settlements, the Financial Stability Board and others.

The GMAC recommends this approach be considered an initial basis for a consensus-driven, functional taxonomy. However, as the digital asset ecosystem continues to evolve, so too will the terminology used to classify it. The Subcommittee will reassess any future developments to provide further recommendations to this approach, based on the guidance of its members. The Subcommittee seeks to support effective rules and regulations for digital assets, and recommends continued collaboration between industry, standard-setting bodies, and the regulatory community.

Additional Meeting Resources

- Meeting Agenda
- Slide Presentation
- Video

About the GMAC and Advisory Committees

The GMAC was created to advise the Commission on issues that affect the integrity and competitiveness of U.S. markets and U.S. firms engaged in global business, including the regulatory challenges of a global marketplace that reflects the increasing interconnectedness of markets and the multinational nature of business. The GMAC also makes recommendations regarding international standards for regulating futures, swaps, options, and derivatives markets, as well as intermediaries. In June 2023, Commissioner Pham announced the leadership and membership of the GMAC and its subcommittees—the largest-ever single advisory committee initiative sponsored by the CFTC. Members include financial market infrastructures, market participants, end-users, service providers, and regulators. Harry Jung is the GMAC Designated Federal Officer, and Nicholas Elliot is the GMAC Alternate Designated Federal Officer.

There are five active Advisory Committees overseen by the CFTC. They were created to provide advice and recommendations to the Commission on a variety of regulatory and market issues that affect the integrity and competitiveness of U.S. markets. These committees facilitate communication between the Commission and market participants, other regulators, and academics. The views, opinions, and information expressed by the Advisory Committees are solely those of the respective Advisory Committee and do not necessarily reflect the views of the Commission, its staff, or the U.S. government.

-CFTC-