Centrally clearing the US Treasury market

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October, 2023

Central clearing of Treasuries transactions is still limited

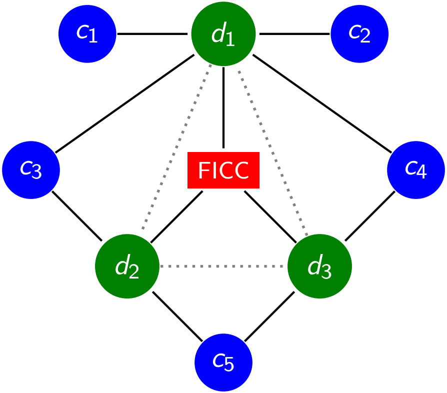
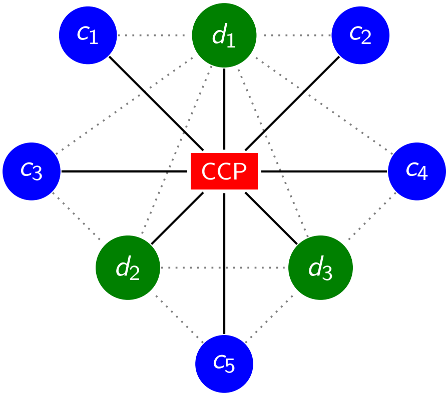


Figure: Data gathered by Treasury Market Practices Group (2018) imply that a firm faces FICC on about 22% of Treasury transactions.

Broad central clearing



Broad central clearing reduces settlement commitments

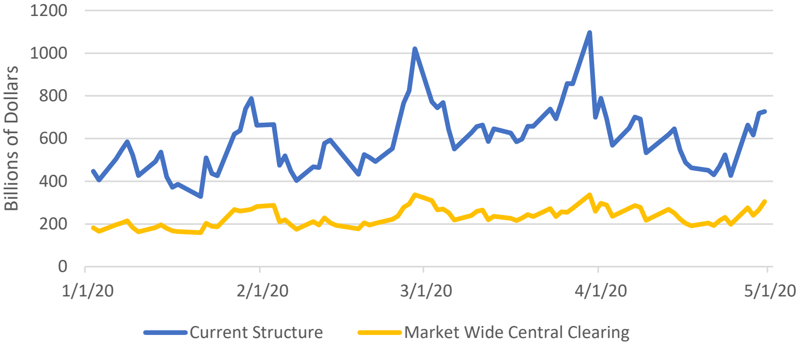


Figure: Source: Fleming and Keane, Federal Reserve Bank of New York, April 2021.

Central clearing reduces settlement fails

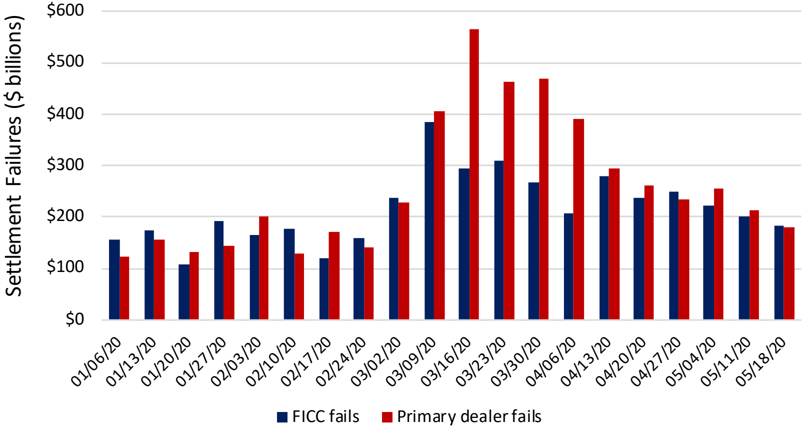


Figure: Settlement fails in treasury securities transactions involving primary dealers, and centrally cleared settlement fails at FICC. Data sources: Federal Reserve Bank of New York and FICC.

Central clearing reduces daisy-chain fails

Fleming and Keane (2021):

- "74% of fails in specific issues are effectively "daisy-chain" fails, which could be paired off and hence eliminated with increased central clearing."
- "the percentage of fails that pair off tends to be higher when fails are higher and in issues where they are higher."
- "It follows that expanded central clearing not only reduces the balance sheet resources needed for intermediation overall through reduced settlement fails, but that the benefits are greatest when they are most needed and for the securities for which they are most needed."