



10 ways the U.S. Treasury central clearing rule impacts technology



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By future proofing their technology platforms, financial services firms can turn a compliance mandate into a competitive advantage.

- Market participants face critical decisions and tight timelines to address the technological impacts related to the U.S. Treasury central clearing mandate.
- Done-away clearing and the potential for multiple central clearing agencies are among the novel challenges that market participants must address.
- A proactive, strategic approach will help firms meet the mandate's deadlines and position them for growth.



As the Securities and Exchange Commission's U.S. Treasury central clearing rule reshapes U.S. Treasury and repo market structure, market participants face unprecedented challenges. In this rapidly evolving environment, technology is more than a tool – it's a driving force behind compliance, efficiency and competitive advantage. To stay ahead of the curve, firms should embrace tech-driven strategies that meet regulatory demands while also future proofing their clearing business against dynamic market forces. Understanding the technical implementation requirements, with a focus on data architecture and modernization to achieve real-time processing infrastructure, will be critical in preparing for the central clearing mandate.

Advanced data analytics, automation and cloud-based platforms are among the key enablers that can transform this mandate from a compliance exercise into a strategic asset. But firms will need to act swiftly to meet the phased-in deadlines - by March 2025 for separating house and customer activities and margin; by December 31, 2025, for clearing cash secondary market transactions; and by June 30, 2026, for clearing repo transactions. As they prepare, **market participants should consider the following 10 tech challenges and capabilities** in four key functional areas of enhancement: risk management, market structure, clearing operations and resiliency.

Risk management

1 Dynamic risk management	Challenge: Migrating to near-real-time risk management processes raises questions about whether to leverage existing technologies for pre-trade margin analytics, and risk limit checks, or to pursue new solutions. Institutions will need to migrate to near-real-time risk management to maintain liquidity requirements and optimize decision-making when executing transactions. This requires real-time data integration from multiple sources with a high degree of data quality. Also, performing risk analysis on large volumes of data requires a significant amount of technical processing power that institutions may not have in place today.	Capabilities: To remain compliant and competitive, firms must enhance pre-trade margin analytics, improve risk management systems for real-time margin calculations and extend counterparty credit risk analytics.
2 Margin management	Challenge: The projected increase in margin call volume and frequency will test the scalability of margin management platforms. The timing of margin calls will pose additional issues as well, as firms will need to consider passing through client collateral or using house funds. How well the margin management platform integrates with central clearing agencies and other trading and risk management systems is another area of consideration.	Capabilities: Margin processes and segregation controls will need to align with the new rulebook, supporting intra-day margin collection and posting to clearing agencies.

Market structure

3 Done-away clearing	Challenge: This new market practice means institutions must manage risk limits, affirmations, block trades, allocations, confirmations and a wider set of market infrastructure connectivity for clients while maintaining confidentiality over counterparties and fee schedules.	Capabilities: Firms will either need to build or extend technology access models to support the execution and margining of done-away trades.
4 Interoperability with multiple clearing agencies	Challenge: Fixed Income Clearing Corporation (FICC) is currently the only covered clearing agency providing netting and settlement services to the U.S. Treasury market and current clearing platforms are not open architecture.	Capabilities: Flexible technology architecture that allows for interoperability and connectivity with multiple central clearing agencies will be required.
5 Vendor integration	Challenge: Vendors could have opportunities to provide middleware solutions that facilitate real-time data exchange compatible with industry standards.	Capabilities: To take advantage of middleware solutions, firms will need to identify areas that require external support, such as accommodating new direct members with FICC. They will also need to develop a clear understanding of the requirements for broker-and-client connectivity and messaging. Vendor integrations to support clearing activity must be built or extended.

Clearing operations

6 Onboarding and contracting	Challenge: Onboarding requests are expected to surge as firms bring on additional sponsored and agency clients.	Capabilities: Handling the increased demands will require infrastructure that scales and integrates with new counterparties and central clearing agencies. Data models must be enhanced to facilitate updates to current contracts. New client onboarding system procedures, data interoperability and execution windows will require testing.
7 Fees and commissions	Challenge: Supporting complex fee and commission models will require building or extending current infrastructure.	Capabilities: To accommodate changes in fees and commissions, firms will need enhanced data models and infrastructure to charge fees and commission, along with the flexibility to include pricing spreads.
8 Reporting	Challenge: The best client-facing portal for client integrations and reporting is a key consideration. Whether this will be done internally or through an external tool also will need to be determined.	Capabilities: Firms should seek out a portal with enhanced reporting and data analytics that offers their clients a more clear, detailed view of transactions and positions while adhering to regulatory demands.

Resiliency

9 Controls and resiliency	Challenge: Firms must maintain data quality, security and privacy even as client data volumes grow.	Capabilities: Building automated controls and having the resiliency of infrastructure as volumes scale will be critical. A library of metadata that encompasses regulatory and operational controls as well as suitable backup options for critical market infrastructure should be established.
10 Testing	Challenge: The clearing platform must scale and meet functional requirements.	Capabilities: Testing the functional requirements across various scenarios, including normal and stressed market conditions, as well as evaluating the front-to-back clearing platform's ability to handle increasing transaction volumes and integration with FICC or other new entrants offering central clearing, will be critical. Industry partners and counterparties should be involved in testing to ensure end-to-end process integrity.

Conclusion

By addressing the challenges created by the central clearing mandate and leveraging technology, firms can enhance near-real-time decision making, improve collateral management and seamlessly integrate with clearinghouses. By acting quickly and strategically, market participants can position themselves to be at the forefront of industry innovation.

Contacts



Adam Hirsh

Managing Director, Financial Services
Capital Markets Technology, Ernst & Young LLP

adam.hirsh@ey.com



Rachel Rausa

Manager, Financial Services
Consulting, Ernst & Young LLP

rachel.l.rausa@ey.com

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