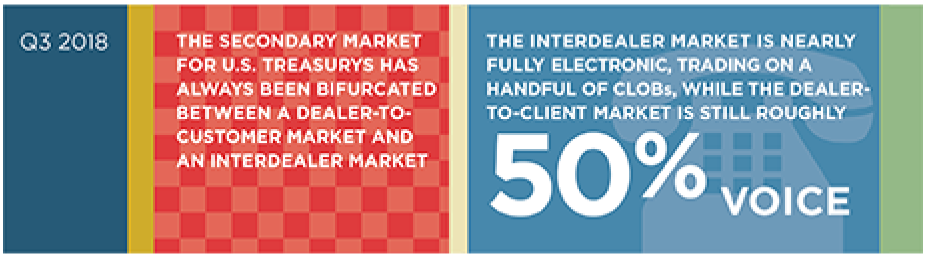
Invisible Frontiers: How Clearing Shapes U.S. Treasury Market Structure

September 20, 2018

Executive Summary:



The market structure for U.S. Treasury securities has been dominated by its clearing arrangements, which are little known and less understood by the great majority of market participants. Treasury Market Practices Group (TMPG) sheds some light on the subject in a recently released draft of their Clearing and Settlement white paper1. In 36 pages, and with remarkably informative graphics, it lays out every possible post-trade relationship and explains their inherent risks.

While exquisite in its detail, the paper provides little context and does not assess the wider implications of the structure of clearing arrangements. Those implications are profound and have had a marked effect on the wider market structure. A firm can only trade with a firm with which it can clear. In a market like U.S. Treasurys, where there is no universal clearing utility, this has the effect of channeling trading liquidity along the paths cut by clearing relationships. Importantly, the TMPG report comes at a time when the U.S. Treasury clearing landscape is shifting dramatically, taking the rest of the market structure with it.

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the differences between rank bands can be very close mathematically.

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