

# U.S. Treasury Clearing: Key Impacts and Required Actions for Hedge Funds

*Preparing for mandatory central clearing of cash and repo transactions ahead of the 2026 and 2027 implementation deadlines*

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## KEY TAKEAWAYS

- The SEC will require mandatory clearing of **U.S. Treasury cash transactions by December 31, 2026** and **repo transactions by June 30, 2027**, with implementation already underway across the market.
- **Repo clearing is the primary impact for hedge funds**, driving new clearing relationships and significant legal documentation.
- **Firms should act now** to secure dealer access, begin documentation negotiations, and prepare for operational and liquidity changes.



## Overview: What are the Final Rules related to U.S. Treasury clearing?

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The SEC’s final rules titled “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” (the “Final Rules”) require most market participants to centrally clear eligible cash and repo transactions involving U.S. Treasuries.

The U.S. Treasury market is one of the largest and most liquid globally, with trillions of dollars in outstanding securities and daily trading volumes approaching \$1 trillion.

The Final Rules are intended to increase transparency, reduce counterparty risk, and promote market stability by shifting activity from bilateral settlement to central clearing.

### Implementation Timeline

- U.S. Treasury **Cash transactions:** Mandatory clearing effective **December 31, 2026**
- U.S. Treasury **Repo transactions:** Mandatory clearing effective **June 30, 2027**

Market participants should view implementation as underway, with preparation required well in advance of these deadlines.

### Background and Legal Basis

The central clearing initiative was largely informed by regulatory and industry concerns following periods of market stress, most notably

the March 2020 disruption in the U.S. Treasury market. That episode exposed structural vulnerabilities in market intermediation, including dealer balance sheet constraints and reduced liquidity. In response, regulators have sought to enhance market resilience, improve transparency, and reduce systemic risk through increased central clearing.

The Final Rules require covered clearing agencies and broker-dealers to clear eligible U.S. Treasury transactions. While hedge funds are not subject to a direct clearing mandate, the requirement is effectively imposed on them through their dealer relationships. In practice, this creates a market-wide clearing framework implemented through clearing infrastructure such as the Fixed Income Clearing Corporation (FICC) and dealer intermediation.

### What Does It Mean to Centrally Clear?

Central clearing involves transactions being processed through a centralized clearinghouse (a central counterparty, or “CCP”) rather than being settled directly between trading parties. The CCP interposes itself between the counterparties, becoming the buyer to every seller and the seller to every buyer, thereby reducing bilateral counterparty credit risk. Transactions are subject to margin requirements, with collateral posted to support the clearing arrangement, and the CCP manages the settlement process to ensure that both sides meet their obligations.

U.S. Treasury transactions are currently, and are expected to continue to be, cleared primarily through the Fixed Income Clearing Corporation (FICC), which remains the dominant clearinghouse for U.S. Treasury products.

## How Hedge Funds Access Clearing

Most hedge funds will access clearing indirectly through sponsoring members, typically banks or broker-dealers. As a result, hedge funds will generally be classified as “indirect participants” in the clearing ecosystem.

In practice, access to sponsored clearing is becoming a key constraint. Dealer capacity, internal balance sheet considerations, and onboarding timelines are affecting availability. Many hedge funds will likely need to establish relationships with multiple sponsoring members to ensure continuity of trading activity.

## Operational Considerations

The current market structure is dominated by a “done-with” model, in which trades are executed and cleared with the same sponsoring dealer. In other words, the hedge fund’s repo counterparty also acts as its sponsoring clearing member at FICC for those transactions.

While functional, this model introduces several inefficiencies:

- Fragmentation across multiple sponsoring members
- Inability to net positions across dealers
- Potentially increased collateral requirements
- Significant onboarding and documentation burden

A “done-away” model, which would allow execution with multiple dealers while clearing through a single entity (in a manner broadly analogous to OTC derivatives clearing), is under development but has not yet been standardized or

widely adopted. As a result, market participants should plan for continued reliance on the “done-with” model in the near term.

### Legacy vs. New Trades

Legacy trades may be affected depending on their maturity, rollover, or whether they are novated into cleared structures. In many cases, existing trades will be permitted to run off without amendment. New trades, however, will be subject to clearing requirements at the time of execution.

### Practical Impact: Cash vs. Repo Clearing

While both cash and repo transactions are subject to central clearing requirements, the practical impact on hedge funds differs significantly.

**For repo transactions**, the transition to central clearing introduces substantial legal, operational, and margin-related changes. Hedge funds must establish sponsored clearing relationships, negotiate new documentation, and adapt to new margin and collateral frameworks.

By contrast, the impact of central clearing **for cash U.S. Treasury transactions** is more indirect. Hedge funds do not typically access clearing directly for cash trades and therefore are not required to enter into new clearing documentation.

However, cash clearing may still affect hedge funds through changes in dealer intermediation, pricing, and market structure. As dealers adjust their balance sheet usage and execution models to accommodate clearing requirements, hedge funds may experience shifts in liquidity, execution quality, and trade standardization.

Overall, while cash clearing is an important structural change for the market, its impact on hedge funds is expected to be incremental compared to the more significant transformation associated with repo clearing. The changes we outline below pertain specifically to repo clearing.

## Legal Implications and Documentation

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### Older Legal Documentation Framework

In the past, legal agreements between trading parties governed repo transactions directly, without the need for a central clearing counterparty. The documentation included terms related to counterparty risk, collateral requirements, and dispute resolution governed by the Master Repurchasing Agreement (the “MRA”) and/or the Global Master Repurchasing Agreement (the “GMRA”).

Prior to the introduction of the SIFMA clearing framework, sponsored repo arrangements were typically documented through amendments to an MRA or GMRA, most commonly in the form of a sponsored repo annex. While these annexes were generally driven by FICC requirements, there was no standardized market template, and documentation varied significantly across dealers. In practice, dealers frequently modified FICC-based language or drafted bespoke provisions to reflect their internal credit and risk requirements. In some cases, the documentation framework also included separate reimbursement or security agreements to address collateral and exposure considerations.

In addition to amending the MRA or GMRA to include a sponsored repo annex, the parties were also required to enter into a Sponsored Membership Agreement. This agreement is a tri-party arrangement among FICC (as clearinghouse), the clearing member, and the customer, pursuant to which the customer designates the clearing member as its sponsoring member and agrees to be bound by the FICC rulebook as a limited member. This requirement continues to apply under the SIFMA done-with documentation framework.

For purposes of compliance with the Final Rules, the legacy framework may still function in many cases. However, to enhance market efficiency as more participants enter the clearing ecosystem, SIFMA has developed standardized documentation for use in implementing the new regime.

### Newer SIFMA Documentation Framework

SIFMA, in collaboration with market participants and external advisors, has developed a standardized documentation framework for Treasury clearing, consisting of the following documents:

- 1. 2024 SIFMA Master Treasury Securities Clearing Agreement (Done-With):** The core agreement governing the clearing relationship between the hedge fund and the clearing member, including rights, obligations, and default mechanics.
- 2. 2024 SIFMA Master Treasury Securities Clearing Schedules (Done-With):** The customization layer to the master agreement where parties negotiate and tailor key commercial, credit, and operational terms.
- 3. Modules to the 2024 SIFMA Master Treasury Securities Clearing Agreement (Done-With):** Optional provisions that can be incorporated to address specific clearing structures, margin models, or operational arrangements.
- 4. 2024 SIFMA Form of Amendment to FICC Clearing Agreement:** An amendment used to align existing FICC sponsored membership agreements with the SIFMA documentation framework and ensure consistency with CCP-facing arrangements.

**5. 2024 Done-With Treasury Clearing Annex:**

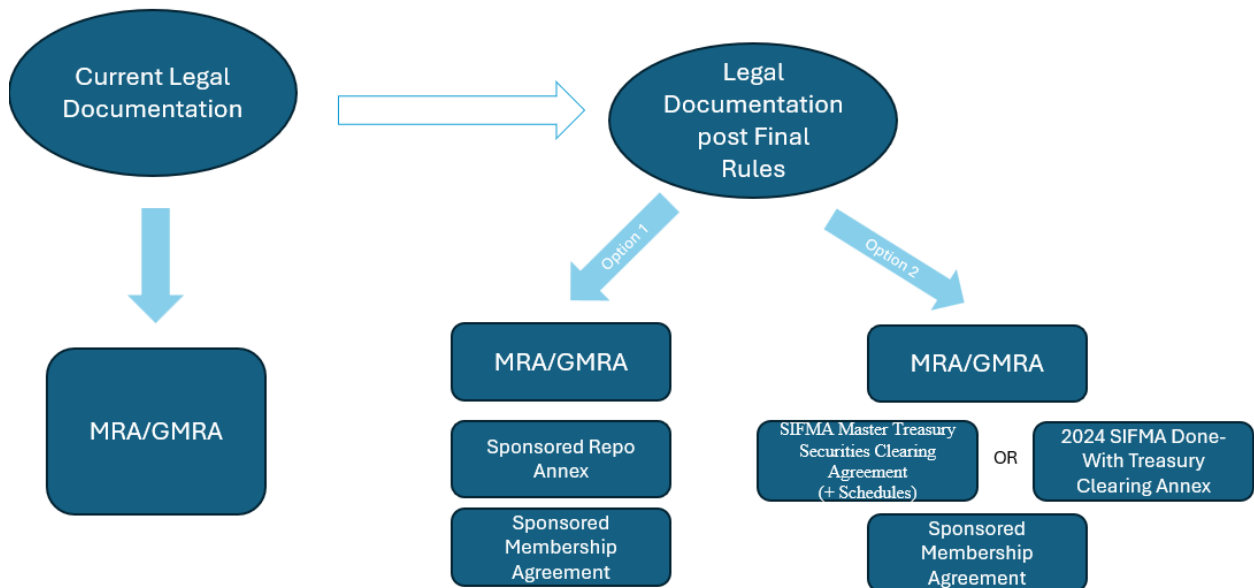
A standardized annex to the MRA or GMRA that governs the submission, novation, and treatment of cleared Treasury transactions between the hedge fund and the clearing member. It effectively modernizes the traditional sponsored repo annex structure, providing a more standardized alternative to legacy annex-based approaches.

At a high level, the SIFMA framework consists of (i) a master pre-printed agreement accompanied by a related schedule that permits customization (documents 1 and 2 above), together with modular provisions that can be applied depending on the specific clearing structure (document 3 above) or (ii) a clearing annex which can be used as an alternative (document 5 above). This flexible approach is designed to accommodate different clearing models and margin arrangements, while allowing the documentation to evolve as market practice develops.

While SIFMA has introduced this standardized documentation framework, market adoption remains uneven. Many dealers continue to rely on modified legacy structures or hybrid approaches, with significant customization of credit and collateral terms. As a result, documentation remains a key area of negotiation despite the availability of standardized forms.

Moreover, as dealers have started to implement the SIFMA documentation, the market is working to find an appropriate balance between standardized credit terms and negotiated positions that are commercially acceptable. While the SIFMA framework is intended to streamline and standardize documentation, it introduces a high degree of complexity, including numerous elections and negotiation points for the parties. This complexity is driving longer and more involved negotiations than many market participants initially anticipated.

The diagram below outlines the legal documentation required for the various options available to remediate the U.S. Treasury repo transactions.



## Conclusion

The SEC's U.S. Treasury clearing rules represent a fundamental shift in market structure. While the regulatory objective is to improve market stability, the immediate impact for hedge funds is operational, liquidity, and documentation-driven.

Firms that proactively address clearing access, margin implications, and legal documentation

will be better positioned to navigate the transition and maintain efficient access to the U.S. Treasury markets.

Early engagement with dealers is critical, as onboarding timelines and documentation backlogs may create bottlenecks ahead of the June 30, 2027 repo clearing deadline.

Below is a list of practical steps managers should be undertaking.



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## About the Firm

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HedgeLegal is a boutique law firm dedicated to providing hedge fund managers with industry best practice trading document negotiation. HedgeLegal has extensive experience negotiating a wide array of trading agreements: Repurchase Agreements, Repo Clearing, ISDA, Credit Support Annexes, UMR, Segregated Collateral Arrangements, Prime Brokerage, Term Commitment/Lock-Up, Equity Master Confirmation Agreements, Futures Clearing, OTC Clearing, FX PB, etc.

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