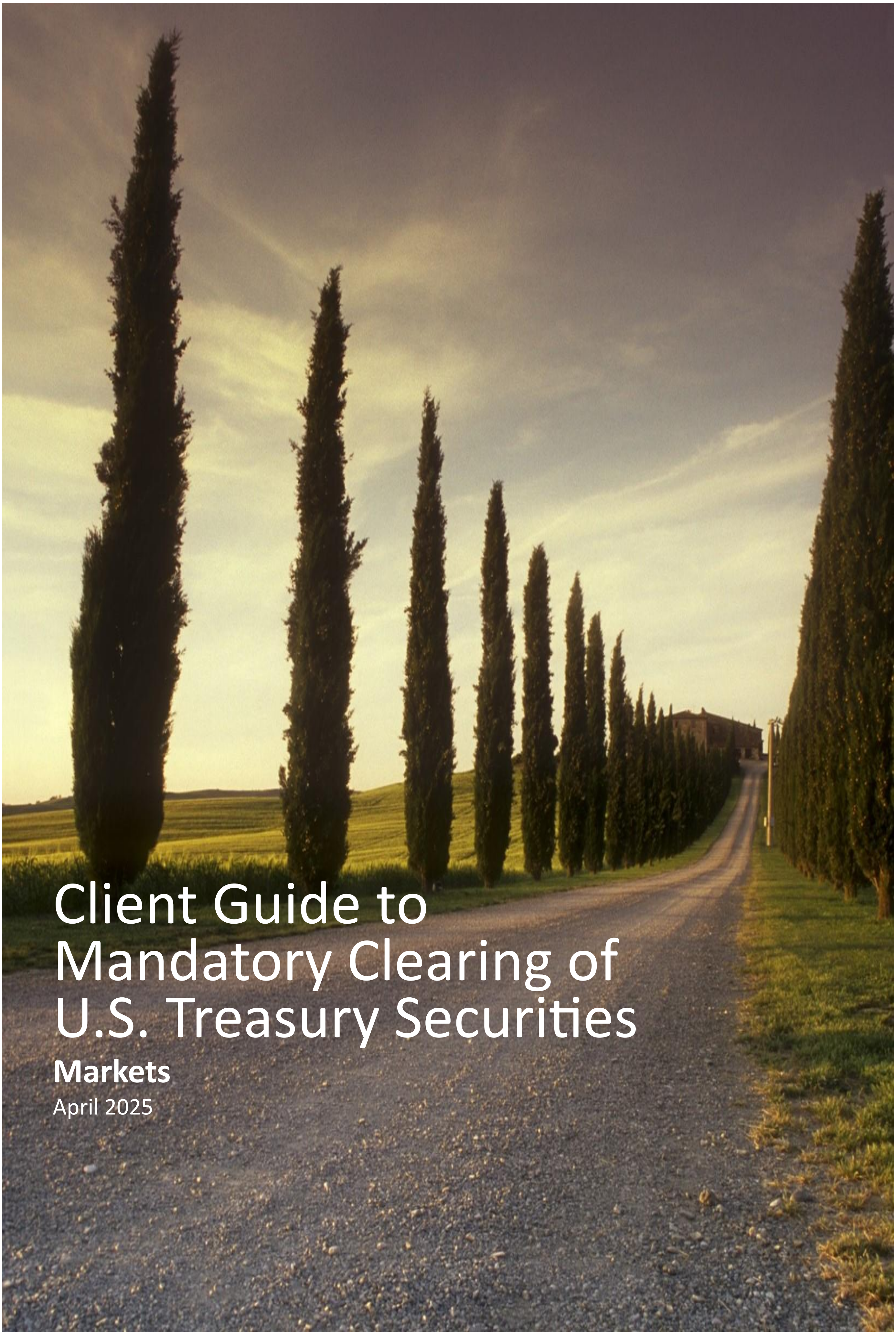

Client Guide to Mandatory Clearing of U.S. Treasury Securities

Markets

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Introduction

On 13th December 2023, the Securities and Exchange Commission (the "SEC" or "Commission") adopted rule amendments (the "Amendments") under the Securities Exchange Act of 1934 that will, in effect, require direct participants of covered clearing agencies that provide central counterparty services ("CCPs") for U.S. Treasury securities to submit for clearing all their repurchase and reverse repurchase transactions involving U.S. Treasury securities and other cash market transactions in U.S. Treasury securities with certain types of regulated counterparties. On the 25th of February 2025, the SEC extended the dates by which the CCPs and CCP members must comply with these regulations (key timelines to be aware of are highlighted below).

The Amendments mandate that CCPs engaged in clearing of U.S. Treasury securities have written policies and procedures reasonably designed to require that every direct participant of the CCP submit for clearance and settlement all "eligible secondary market transactions" in U.S. Treasury securities to which it is a counterparty.

This Client Guide is intended to provide an overview of the impact on the US market. You may also want to consider the impact of these regulatory developments on other regions. This document is not intended to be comprehensive and does not consider specific client or transactional impact. We encourage you to seek your own professional advice.

What are the key timelines to be aware of?

The Amendments provide for the following timeline for implementation:

> **30th September 2025**: Implementation of enhanced FICC rulebook changes including operational readiness to segregate firm and client margin, risk management practices and customer asset protection.
>
> **31st December 2026**: Compliance date for applicable Cash transactions of U.S. Treasury securities to be cleared by direct participants of a CCP.
>
> **30th June 2027**: Compliance date for appliable Repo transactions of U.S. Treasury securities to be cleared by the direct participants of a CCP.

Key *Impacts* for the U.S. Market

Where will Clearing take place?

Currently, the Fixed Income Clearing Corporation ("FICC"), a subsidiary of the Depository Trust & Clearing Corporation, is the only CCP that offers clearing services for U.S. Treasury securities, although the Amendments do not restrict other CCPs from providing Treasury Clearing.

What is a CCP?

CCPs clear market transactions by effectively becoming the buyer to every seller and the seller to every buyer, reducing counterparty credit risk. A CCP will net transactions across the market and require participants to post margin, typically cash or securities, and the CCP will guarantee that the trade's obligations are met, even if either party defaults.

Is Citi a direct member of FICC?

CITIGROUP GLOBAL MARKETS INC. ("CGMI") and CITIBANK, N.A. ("CBNA") are existing Direct Members of FICC.

Which transaction 'types' will be in scope for mandatory clearing?

The introduction of mandatory clearing for U.S. Treasury securities will impose mandatory clearing of certain purchases and sales of secondary cash ("Cash") and repurchase and reverse repurchase agreement ("Repo") transactions, in both cases of U.S. Treasury securities eligible for clearing on a CCP (as described further below).

Which Cash transactions are required to be cleared?

- Cash transactions for U.S. Treasury securities that are executed by a direct participant of FICC that:
    - is bringing together multiple buyers and sellers using a trading facility (such as a limit order book) (e.g., many inter-dealer brokers); and
    - is a counterparty to both the buyer and seller in two separate transactions; and

- Cash transactions for U.S. Treasury securities between a direct participant of FICC (such as CGMI and CBNA) and a counterparty that is a registered broker-dealer, government securities dealer or government securities broker.

Which Repo transactions are required to be cleared?

- Repo transactions of U.S. Treasury securities in which one of the counterparties is a direct participant of FICC.
- Repo transactions of U.S. Treasury securities that are covered by the Amendments thus include: (i) certain triparty Repos; (ii) Repo transactions by registered funds and hedge funds; (iii) Repos by futures commission merchants ("FCM"); and (iv) Repos by commercial end users, in each case, if they are entered into with a direct participant of the CCP.
- The requirement to clear Repo transactions of U.S. Treasury securities will affect a broad range of market participants (hedge funds, asset managers, corporates), given the extent to which Repos are currently facilitated through brokers and dealers that are direct participants at FICC.
- Not all Repo transactions of U.S. Treasury securities are required to be cleared at FICC. Only those that are eligible under FICC's rules are covered, and the Repo transaction must have a fixed interest rate and be overnight or have a fixed term of no more than the FICC rules permit (currently two years). Eligible Repos may be forward starting.

Which counterparties will be exempt from the Rule?

- For Cash transactions of U.S. Treasury securities, hedge funds, funds, asset managers and corporate entities will not be required to centrally clear via a CCP if the trade is not of the type described in the "**Which Cash transactions are required to be cleared?**" section above.
- Any U.S. Treasury securities Repo transaction in which one counterparty is itself a CCP, is a derivatives clearing organization registered under the Commodity Exchange Act or is regulated as a CCP in its home jurisdiction.
- Inter-affiliate Repo transactions of U.S. Treasury securities entered between a direct participant and an affiliated counterparty that is a bank, broker-dealer or FCM, provided that the affiliated counterparty submits for clearance and settlement all other Repo transactions of U.S. Treasury securities to which it is a party.
- Any Repo of U.S. Treasury securities between a direct participant and a state or local government, other than any pension or retirement plan established or maintained by a state, any of its political sub-divisions, or any agency or instrumentality of a state, for the benefit of its employees.
- Any transaction between a direct participant and a central bank, a sovereign entity (a central government (including the U.S. government), or an agency, department, or ministry of a central government), or an international financial institution (i.e., many multilateral development banks).
- Any transaction between a direct participant and a natural person.

Are Securities Lending transactions in scope?

Securities lending has not been deemed to be in scope as part of the SEC mandate.

What is the impact if you are facing Citi Non-U.S. Affiliate Entities?

Citi is currently reviewing how the Amendments affect Cash and Repo transactions for U.S. Treasury securities between counterparties and non-U.S. Citi entities such as Citigroup Global Markets Limited (CGML) and Citigroup Global Markets Europe (CGME). This is subject to further review.

Currently we do not see any in scope activity for Cash transactions when facing CGML and or CGME given this does not meet the definition of in-scope cash transactions. See '**Which Cash transactions are required to be cleared**' section.

Key *Considerations* for the U.S. Market

Is Citi currently a member of FICC?

Yes. Citi is a direct member of FICC through the following Legal Entities:

Citigroup Global Markets Inc. (CGMI)
Citibank, N.A. (CBNA)

Is there a requirement to become a member of FICC to participate in the clearing of U.S. Treasury securities?

FICC offers different clearing models dependent on whether you choose to become a direct participant or participate indirectly. For indirect access through a FICC member participant such as Citi, FICC offers a sponsored model and an agent clearing model. The below link is to FICC's U.S. website, describing U.S. Treasury clearing and outlining its offerings. We encourage you to seek your own professional advice in determining appropriate clearing access that is most suitable for you.

https://www.dtcc.com/ustclearing

Are there any contractual agreements between Citi and yourselves that might need to be updated?

Existing legal agreements may require amendments depending on the nature of the clearing model which you choose to adopt. Citi will be contacting you in the future to review and update any existing or new agreements required to be put in place in order to comply with the mandatory clearing rules.

Currently, Citi is onboarding clients to sponsored repo in non-segregated accounts. In late 2025, Citi expects to offer sponsored repo to clients requiring segregated accounts.
For additional information please reach out to citimarketsq@citi.com.

Are there any other CCPs that will offer central clearing of US Treasury securities?

At present, only FICC is an approved CCP to clear U.S. Treasury securities. ICE Clear Credit and CME Securities Clearing Inc. have announced plans to clear U.S. Treasury securities in the future. As new models become available, Citi will review those models for feasibility.

What are the operational impacts for you to consider?

- Requirement to submit trades to clearing and/or have arrangements to have a clearing agent in place.
- Execution and submission of trades into clearing within the market defined timelines.
- Margin calculation and collection.
- Post-trade front to back flow analysis to determine what is required to support the market changes and rulebooks.
- Trade lifecycle management.

What is Citi's approach to done away?

Citi actively participates in industry forums focused on the done away model. It is the firm's view that adopting an approach aligned with the established OTC clearing market practices will facilitate a more seamless and effective implementation of the US Treasury Clearing rules. Nonetheless, a number of critical issues remain outstanding and must be addressed by the industry before substantial progress can be realized. As these issues are resolved and the particulars of the CCPs' approach to the done away model become clearer, Citi will leverage our deep expertise in OTC and Futures Clearing markets and our industry leading risk management procedures to develop and offer done away trading for our clients.

What are the key differences in the Sponsored versus Agency Clearing Model?

Sponsored Repo is a program currently offered by FICC, as a CCP, by which a FICC member can "sponsor" a party which is not a direct member of FICC as a "sponsored member" to have an indirect relationship with the CCP. The sponsoring FICC member, such as Citi, agrees to guarantee the performance of an entity (a Citi client) as a sponsored member of FICC. If a sponsored member fails to meet a margin call or to settle a trade as required by the terms of the repo transaction, then the sponsoring member must perform the obligations owed to FICC on behalf of the sponsored member by virtue of the guaranty.

Under an Agency Clearing Model, FICC only has a legal relationship with the Agent Clearing Member and does not have any rights or obligations with respect to the Executing Firm Customers. The Agent Clearing Member is obligated to satisfy all outstanding obligations to FICC in its capacity as Agent Clearing Member.

See FICC material for further information on access models: HERE

What does Citi see as the current industry challenges?

There are a number of additional items which still require further clarification and whose impact on compliance with the rule is still unknown.
These include:

- More specificity in interpretation is needed for proper handling of inter-affiliate, bank branch, and cross-border transactions.
- Key aspects of the "done-away" clearing model across legal documentation and operational workflows still need to be addressed by the industry. Some examples are:
  - Accounting opinions;
  - Standardization of base legal documentation;
  - Pre-execution credit checks;
  - Portability capabilities of each CCPs' repo clearing offering;
  - Settlements processing of near and far legs; and
  - Margin Call processing.
- The impact on implementation and adoption of the accounting and capital treatment for FICC's agency clearing model is still under review.
- The impact of additional clearinghouses and any new model structures continue to require input from the industry and market participants.