ISDA® Safe, Efficient Markets

March 2026

Safe, Efficient Markets for SFTs

CONTENTS

EXECUTIVE SUMMARY

Securities financing transactions (SFTs) – including repurchase agreements (repo[1]), securities lending, buy/sell backs and margin lending – are foundational to the functioning of modern financial markets. They support the day-to-day distribution of liquidity, enable collateral to move efficiently across cash and derivatives markets, and play an important role in the transmission of monetary policy. SFTs provide secure financing channels that market makers, asset managers, hedge funds, pension funds and banks rely on to manage financing, leverage and collateral needs, thereby supporting healthy secondary-market liquidity and the functioning of key benchmarks, such as the Secured Overnight Financing Rate (SOFR)[2]. Within this ecosystem, securities lending plays a distinct role by enabling transactional short selling and providing market participants with access to specific securities needed for settlement, hedging or portfolio management.

SFTs provide secure financing channels that market makers, asset managers, hedge funds, pension funds and banks rely on to manage financing, leverage and collateral needs, thereby supporting healthy secondary-market liquidity and the functioning of key benchmarks

Despite this central role, experience across the past several decades has shown that secured funding markets can come under pressure during periods of elevated volatility. Events such as the 1998 Long-Term Capital Management (LTCM) episode[3], the 2007-2009 global financial crisis[4], the 2019 US repo rate spike[5], the 2020 COVID-19 liquidity dislocation[6] and the 2022 UK liability-driven investments (LDI) crisis[7] illustrate how demand for secured funding can rise as balance sheet capacity becomes more constrained. These dynamics can challenge market functioning and increase reliance on official-sector liquidity backstops. Beyond the effects of volatility itself, several long standing structural frictions – which become more binding as volatility rises – continue to limit the ability of SFT markets to adjust smoothly during stress.

There has been substantial progress to make the system more robust since the financial crisis. Post-crisis reforms, including expanded central clearing, strengthened risk management practices and enhanced central bank facilities[8], have improved the resilience of SFT markets. However, divergent capital frameworks, differing treatment of SFTs relative to derivatives, leverage ratio constraints, liquidity requirements and fragmented reporting regimes can collectively reduce balance-sheet flexibility, impede collateral mobility and increase overall costs for SFT intermediation, particularly during periods of heightened volatility. While these frictions may be manageable in normal conditions, they can become more binding as volatility rises[9].

[1] Repo is used in this paper to mean both repo and reverse repo transactions

[2] Securities financing transactions (SFTs) – primarily repo and reverse repo – are fundamental to the mechanics of the Secured Overnight Financing Rate (SOFR), as the rate is constructed from actual overnight Treasury repo transactions

[3] Federal Reserve History, Near Failure of Long-Term Capital Management, www.federalreservehistory.org/essays/ltcm-near-failure

[4] Federal Reserve History, The Great Recession and Its Aftermath, www.federalreservehistory.org/essays/great-recession-and-its-aftermath

[5] Federal Reserve Board, What Happened in Money Markets in September 2019?, www.federalreserve.gov/econres/notes/feds-notes/what-Happened-in-Money-Markets-in-September-2019-20200227.htm

[6] Federal Reserve, Supervisory and Regulatory Actions in Response to COVID-19, www.federalreserve.gov/supervisory-regulatory-action-response-covid-19.htm

[7] Federal Reserve Bank of Chicago, UK Pension Market Stress in 2022 – Why It Happened and Implications for the US, www.chicagofed.org/publications/chicago-fed-letter/2023/480

[8] Central banks open market operations can provide a relief valve but need more support around stigma and impact on regulatory measures

[9] There are important differences in the way SFTs work in Europe compared with the US and in the structure of the two markets. This paper focuses on structural and regulatory similarities across both markets

This paper identifies the structural and regulatory drivers that influence secured funding availability under different market conditions and outlines targeted advocacy priorities aimed at supporting resilient, efficient and well-supervised SFT markets. It also considers the differences in accounting, data and prudential frameworks for SFTs and derivatives – along with emerging digital asset developments – that can create barriers to holistic trading book risk management, including efficient cross-product netting sets, liquidity management and collateral efficiencies.

What is Constraining the Availability of Secured Funding?

The availability and efficiency of secured funding markets can be constrained during periods of market stress. A set of structural, regulatory and operational factors interact in ways that can reduce balance sheet capacity, constrain collateral flows and limit dealers' ability to intermediate at times when demand for secured funding increases.

The availability and efficiency of secured funding markets can be constrained during periods of market stress. A set of structural, regulatory and operational factors interact in ways that can reduce balance sheet capacity, constrain collateral flows and limit dealers' ability to intermediate

Key drivers include:

Shifts in credit risk appetite: During periods of elevated volatility, counterparties – both banks and non-banks – tend to adopt a more cautious approach to risk. Even well-secured exposures may see reduced capacity as institutions adjust their appetite for balance sheet usage.

Adjustments to capital frameworks: Variations in capital frameworks, such as the standardized approaches and the surcharge for global systemically important banks (G-SIBs) – particularly differences in the treatment of SFTs versus derivatives – can create liquidity silos and trap collateral in parts of the system where it cannot be efficiently redeployed. Limited recognition of netting (eg, not allowing recognition of cross-product netting between derivatives and SFTs for capital) can increase regulatory requirements in ways that become more pronounced under stress.

Leverage ratio constraints: The leverage ratio[10] should act as a backstop to risk-based capital requirements, rather than as a binding constraint.

Liquidity constraints: Liquidity rules, such as the liquidity coverage ratio (LCR[11]) and net stable funding ratio (NSFR[12]), may apply funding and outflow assumptions that do not always reflect the actual liquidity characteristics of SFTs, particularly centrally cleared or short dated transactions. In some jurisdictions, differences in treatment (such as open maturity reverse repos in the EU) can further limit flexibility.

Accounting asymmetries: Variations between US Generally Accepted Accounting Principles (US GAAP) and International Financial Reporting Standards (IFRS) for balance sheet offsetting – even where close-out netting is legally enforceable – can require gross presentation of SFTs and derivatives exposures. This increases balance sheet size and impacts debt and covenant ratios, particularly for non-banks, reducing flexibility when collateral flows intensify. Certain areas of the capital framework, such as the G-SIB framework, also treat the same activity differently due to divergent accounting principles. Inadvertent penalization for new client clearing access models also needs to be addressed to ensure a level playing field and maintain client clearing accessibility across jurisdictions and global providers.

[10] Basel Committee on Banking Supervision (BCBS), LEV - Leverage Ratio, https://www.bis.org/basel_framework/standard/LEV.htm

[11] BCBS, LCR – Liquidity Coverage Ratio, www.bis.org/basel_framework/standard/LCR.htm

[12] BCBS, NSFR - Net Stable Funding Ratio, www.bis.org/basel_framework/standard/NSF.htm

Data and reporting fragmentation: Differences in supervisory reporting frameworks – including data fields, lifecycle reporting and technical standards – create operational burdens and limit the consistency of regulatory insights into market functioning. Greater use of standardization initiatives, such as the Common Domain Model (CDM[13]) and ISDA's Digital Regulatory Reporting (DRR[14]) solution, offer opportunities for efficiency gains and reduce the overall cost of regulatory reporting requirements.

While each of these drivers has its own standalone impact, they may together contribute to periods of tighter secured funding availability, particularly during episodes of heightened volatility.

With government bond markets expanding, non-bank participation growing and central clearing of derivatives increasing, the importance of SFTs in supporting market liquidity and monetary policy transmission continues to rise

The Strategic Imperative for Reform

With government bond markets expanding, non-bank participation growing and central clearing of derivatives increasing, the importance of SFTs in supporting market liquidity and monetary policy transmission continues to rise. A better calibrated, more risk-sensitive and harmonized regulatory approach would help ensure secured funding markets can continue to function effectively across a range of market conditions.

A forward-looking prudential framework should:

- Recognize the increasing resilience of centrally cleared repo;
- Support scalable balance-sheet capacity throughout the cycle;
- Recognize cross-product, collateral-efficient risk management across SFTs and derivatives;
- Ensure liquidity and capital metrics accurately reflect economic exposure; and
- Incorporate digital settlement innovations that reduce settlement and liquidity risk.

Advocacy Priorities

To strengthen the resilience and efficiency of global SFT markets, this paper proposes an advocacy agenda focused on addressing key structural and regulatory frictions.

The priorities include:

Adjustments to capital frameworks:

- **Cross product netting:** Enable use of the standardized approach for counterparty credit risk (SA-CCR) for SFTs in risk-based and related prudential frameworks.
- **Standardized approach for credit risk:** Recalibrate the capital framework to better reflect actual risk by recognizing the short-term nature of SFTs, apply more risk-aligned treatment to investment-grade counterparties and update SFT volatility haircuts based on current market data.

Haircut floors: Minimum haircut floors are a blunt tool that fail to reflect important market nuances. The objective of addressing leverage is more appropriately achieved through a risk-based approach, rather than prescriptive minimum haircuts that reduce risk sensitivity and may distort well-functioning secured funding markets.

[13] ISDA, Common Domain Model (CDM), www.isda.org/isda-solutions-infohub/cdm/

[14] ISDA, DRR - Digital Regulatory Reporting (DRR), www.isda.org/isda-solutions-infohub/isda-digital-regulatory-reporting/

Central clearing: Risk-appropriate regulatory and financial policy and capital incentives should make voluntary central clearing of SFTs more attractive, while recognizing there are good reasons why market participants might elect not to clear.

Leverage ratio constraints: Ensure the leverage ratio remains a backstop to risk-based capital ratios so low-risk, balance-sheet-intensive activity is not constrained.

Liquidity constraints: Improve LCR/NSFR treatment for cleared repo, open-maturity reverse repos in the EU and SFT-related assets.

Data and reporting fragmentation: Advance CDM and ISDA DRR adoption, clarify treatment of tokenized/near-instantaneously settled collateral and eligible digital assets.

THE STRUCTURE AND FUNCTIONING OF SFT MARKETS

This section provides a high-level overview of the structure and functioning of SFT markets. Increased clearing activity is expected to result from the Securities and Exchange Commission's (SEC) US Treasury clearing mandate (with repo compliance set for June 30, 2027). This will transform the SFT market by shifting a significant portion of bilateral repo and reverse repo trades to central clearing in the US.

Product Types and Mechanics

Repos and reverse repos provide short term secured financing and liquidity based on the market value of high quality collateral, primarily government bonds. Securities lending enables short selling and provides liquidity in equity and fixed income markets, while margin lending provides leverage to hedge funds and prime broker clients. Each product has different haircut, collateral and tenor dynamics, influencing how risk builds and unwinds.

Market Participants

SFT markets connect a diverse ecosystem of market participants: banks and broker dealers (both lenders and borrowers), money market funds and central banks (key cash providers), asset owners and hedge funds (collateral suppliers or borrowers), central counterparties (CCPs) and custodians/triparty agents that manage settlement, collateral allocation and margining workflows.

The heterogeneity of participants shapes how funding conditions evolve under stress. Specifically, there is a high concentration in dealer intermediation, a growing non-bank presence, especially money market funds and hedge funds, and cross-jurisdictional linkages through collateral flows.

Legal Documentation

Repos are generally documented under the Global Master Repurchase Agreement (GMRA) (under English law) or Master Repurchase Agreement (MRA) (under New York law). Both are master agreements comprising standard provisions and a negotiated annex for elections and supplemental terms. Optional annexes cover specific cases, such as equity repos, agency transactions, buy/sell backs and domestic securities (eg, UK gilts). Key economic terms – such as securities quantity, repo rate and repurchase date – are recorded in individual confirmations for each transaction.

Securities lending uses the Global Master Securities Lending Agreement (GMSLA) (under English law) or the Master Securities Lending Agreement (MSLA) (under New York law). Like the GMRA, the GMSLA includes standard provisions and a negotiated schedule, with confirmations for each loan specifying details like term and lending fee.

Margin lending is generally documented within firm-specific agreements, including prime brokerage agreements in some cases.

The master agreements include provisions for close-out netting[15], which is essential for risk management and favorable regulatory capital treatment.

[15] Close-out netting involves early termination upon default, valuation of terminated transactions and calculation of a single net amount owed or owing

ISDA Master Agreement for Repo and Securities Lending

There are many similarities in the legal and contractual frameworks between SFTs and derivatives, including use of collateral and reliance on close-out netting. These and other similarities were outlined in an ISDA paper published in 2020, entitled *Collaboration and Standardization Opportunities in Derivatives and SFT Markets*[16].

Following publication of that paper, the ISDA Securities Financing Transaction Definitions and the ISDA Securities Financing Transactions Schedule Provisions[17] were published in February 2022, which incorporate the necessary terms and amendments to enable repo and securities lending transactions to be documented under the ISDA Master Agreement. Key features include termination and close out of specific groups of SFTs by recreating 'mini close outs'. ISDA published a brief overview of the SFT Definitions and the SFT Schedule Provisions in September 2022, describing the use cases currently identified for these documents and highlighting possible future developments[18].

Collateral, Tenor and Market Size

Collateral for repos mainly consists of sovereign debt, with some agency and corporate bonds and equities included. Securities lending and margin lending typically use equity securities as collateral. Repo financing is typically overnight or short term. Market size is large and systemically significant: roughly €10 trillion in the EU and nearly $12 trillion in the US[19] and with deep markets in the UK (with daily average volumes in the gilt repo market reaching £250 billion as of the first quarter 2025) and global clearing venues.

Demand for high quality collateral has risen following implementation of the post-crisis reforms, while the continued growth of fiscal deficits in developed markets has increased the need to finance significant amounts of debt

Infrastructure and Bank Organization

Triparty platforms (eg, BNY, JP Morgan, BNP Paribas, Euroclear and Clearstream), CCPs (eg, the Fixed Income Clearing Corporation (FICC), LCH and Eurex) and settlement systems (eg, Fedwire, Euroclear and Clearstream) enable efficient collateral mobility and delivery-versus-payment settlement. Within banks, there is increasing focus on collateral operations, optimization and shared inventory management across SFT and derivatives desks to support cross-product harmonization and optimal liquidity management.

Structural Growth Drivers

Demand for high quality collateral has risen following implementation of the post-crisis reforms (including clearing mandates, margin requirements for non-cleared derivatives and implementation of the LCR/NSFR), while the continued growth of fiscal deficits in developed markets has increased the need to finance significant amounts of debt. Non bank participation has increased, even as dealer consolidation has concentrated intermediation. Electronic trading, clearing and optimization technologies have improved efficiency but also introduced new points of fragility.

[16] ISDA, Collaboration and Standardization Opportunities in Derivatives and SFT Markets, www.isda.org/2020/10/05/collaboration-and-standardization-opportunities-in-derivatives-and-sft-markets/

[17] ISDA, ISDA Publishes Documentation to Align Derivatives and SFT Markets, www.isda.org/2022/02/28/isda-publishes-documentation-to-align-derivatives-and-sft-markets/

[18] ISDA, ISDA SFTs Definitions: Current and Future Use Cases, www.isda.org/2022/09/29/the-2022-isda-securities-financing-transactions-definitions-current-and-future-use-cases/

[19] Board of Governors of the Federal Reserve System, The $12 Trillion US Repo Market, www.federalreserve.gov/econres/notes/feds-notes/the-12-trillion-u-s-repo-market-evidence-from-a-novel-panel-of-intermediaries-20250711.html

SFTs in Monetary Policy and Stress Events

History shows that certain SFT markets are sensitive to stress. The 1998 LTCM episode, the 2007-2009 financial crisis, the 2019 US repo rate spike, the 2020 COVID 19 liquidity dislocation and the 2022 UK LDI crisis all illustrate how directional trading, rapid deleveraging, margining dynamics, collateral valuations and balance sheet constraints can interact to amplify volatility.

Post-crisis reforms have enhanced overall market resilience but also introduced constraints that can limit dealer intermediation capacity during periods of stress

Post-crisis reforms have enhanced overall market resilience but also introduced constraints that can limit dealer intermediation capacity during periods of stress. At the same time, the expansion of centrally cleared activity, together with the development of central bank backstop facilities, such as the Federal Reserve's repo and reverse repo operations, European Central Bank refinancing tools and Bank of England (BoE) liquidity schemes, underscore the case for recalibrating the post-crisis reforms.

These open market operations now serve as a critical relief valve during periods of stress, preserving secured funding market functioning and supporting monetary policy transmission. Yet stigma associated with accessing central bank support continues to limit their effectiveness. Reducing this stigma – and recognizing the prudential value of these facilities within capital, leverage, liquidity and resolution frameworks – would enhance their ability to mitigate systemic strains and reinforce overall SFT market resilience. Episodes of repo market dysfunction quickly spill over into government bond markets, impairing benchmark rate formation and weakening monetary policy transmission.

REGULATORY LANDSCAPE

Capital Frameworks

A well-calibrated risk-appropriate capital framework is essential to support resilient, efficient SFT markets, particularly as volumes grow and market structure evolves across jurisdictions. As global authorities advance Basel III implementation and refine prudential standards, there is a clear opportunity to modernize the capital rules, so they better reflect the secured, short-dated and collateralized nature of SFT exposures.

Enhancing cross-product alignment between SFTs and derivatives, updating standardized risk weights to reflect robust regulatory oversight and ensuring consistent treatment of short-maturity financing across jurisdictions would improve risk sensitivity, support balanced intermediation and strengthen the functioning of secured funding markets through the cycle. This section identifies the targeted refinements that would most effectively promote a coherent, risk-appropriate capital regime for SFTs, while maintaining strong supervisory safeguards.

The following issues represent key industry focus areas and are not presented in order of impact or priority.

Cross-product Netting

By the middle of 2027, the US Treasury clearing mandate will significantly expand the volume of US Treasury repo transactions that must be centrally cleared. Recent US Commodity Futures Trading Commission[20] and SEC[21] proposals to extend existing cross-margining arrangements offered by FICC and CME Group to clients is an essential step toward ensuring the mandate can be implemented efficiently, allowing a broader set of market participants to benefit from risk reducing offsets across collateral for cleared Treasury repos and derivatives.

Under the current SA-CCR design, banks are required to calculate exposures on a single product basis and cannot net repos against derivatives. As a result, firms could face higher capital requirements, even when the economic risk of client portfolios falls

Once client cross margining becomes available, customers will be able to post lower initial margin that more closely reflects the true risk of a hedged Treasury repo derivatives portfolio. However, this operational improvement will not translate into prudential regulatory relief unless regulators modify the capital framework to recognize these same offsets within the netting set. Under the current SA-CCR design, banks are required to calculate exposures on a single product basis and cannot net repos against derivatives. As a result, firms could face higher capital requirements, even when the economic risk of client portfolios falls, reducing balance sheet capacity precisely when clearing volumes rise. This outcome would be exacerbated by reduced initial margin posted due to the FICC-CME arrangement.

To avoid this counterproductive outcome, regulators need to incorporate an extended SA-CCR methodology, which treats repo collateral as a forward derivatives contract and allows SFTs and derivatives to be recognized together under qualifying cross product netting agreements.

[20] Commodity Futures Trading Commission, Proposal to Provide Exemptive Relief for Cross-Margining, www.cftc.gov/sites/default/files/2025/12/2025-23150a.pdf

[21] Securities and Exchange Commission (SEC), Notice on Cross-Margining Agreement, www.govinfo.gov/content/pkg/FR-2025-12-29/pdf/2025-23886.pdf

While the lack of cross product netting recognition is most acute in the context of the US Treasury clearing mandate, it also affects the broader SFT market. For this reason, ISDA recommends that banks be permitted to adopt extended SA-CCR on an optional basis for all SFTs in cross-product netting agreements generally, not only US Treasury repos.

It is also imperative that an extended SA-CCR framework be permitted in the capital rules across all key jurisdictions (eg, the EU, UK, Japan and Canada) to support market efficiency globally and avoid an unlevel playing field.

A critical technical barrier to effective cross-product netting is the misalignment in SA-CCR between settled-to-market (STM) and collateralized-to-market (CTM) transactions. Under SA-CCR, STM transactions – such as US Treasury futures – must be placed in a separate 'hybrid' sub-netting set because they are not treated as being subject to variation margin. As such, they would be netted separately from CTM transactions – such as cleared Treasury repos – if the capital rules are revised to permit SFTs in SA-CCR. Although US regulatory capital rules allow banks to elect to treat STM transactions as CTM for cleared house side exposures, this election does not extend to client cleared or bilateral STM exposures, preventing them from being netted with CTM classified repo transactions.

This means that even though Treasury futures and cleared Treasury repos economically offset the risk of each other, resulting in lower initial margin requirements, they sit in different SA-CCR netting sets, blocking recognition of the risk reducing offsets that underpin cross margining. The barrier is also present in the capital frameworks of other major jurisdictions – affecting both house and client-cleared exposures – and similarly needs to be addressed to support global market efficiency and access.

Another issue that warrants attention is the fact that current capital rules may overstate default fund capital requirements by failing to recognize the risk-mitigation benefits of cross-margining by qualifying central counterparties (QCCPs) as these programs are rolled out. Even when cross-margining lowers a clearing member's default fund contribution amounts by reflecting the reduced risk of a combined repo–derivatives portfolio, the framework continues to calculate exposures for derivatives and repo-style transactions separately, leaving exposure at default (EAD) unchanged while recognizing less prefunded resources. This mismatch produces an over-calibrated QCCP hypothetical capital requirement[22] – a problem that will become more pronounced as the CME–FICC arrangement and other cross-margining offerings expand.

Advocacy Priorities

Extend SA-CCR to include SFTs: Allow banks the option to apply an extended SA-CCR framework to SFTs across risk-weighted assets (RWAs) and potentially other regulatory frameworks, including the large exposure framework. The application should be incorporated in capital rules consistently across all key jurisdictions.

Expand the STM to CTM election to client facing and bilateral transactions: Allow STM contracts to be treated as CTM for client cleared and bilateral STM exposures. This should be incorporated in capital rules consistently across all key jurisdictions.

Default fund contributions: Regulators should revise the capital framework for QCCP default fund contributions to recognize the risk reducing effects of cross margining between derivatives and repo-style transactions.

[22] The reference here is to the KCCP measure, which represents the hypothetical capital requirement of a qualifying central counterparty (QCCP) and is intended to capture the QCCP's exposure to each of its clearing members

Standardized Approach for Credit Risk

Standardized Approach for Short Maturity SFTs

In jurisdictions that retain the internal ratings-based approach (IRB), SFTs benefit from a maturity adjustment that reflects the very short tenors typical of repo and other SFT exposures, producing materially lower and more risk-sensitive capital requirements. By contrast, the standardized approach does not incorporate this shorter maturity recognition outside the interbank exposure class – an outcome that is inconsistent with actual SFT risk profiles.

Treatment of Corporate Exposures

The treatment of unrated corporate exposures under the standardized approach affects financial collateral eligibility for SFT RWAs. Across jurisdictions, unrated corporates generally receive a 100% risk weight, but relief mechanisms vary[23]. According to the US notice of proposed rulemaking (NPR) from 2023, US banks may apply a 65% weight only when the obligor has publicly listed securities – a requirement that disadvantages regulated investment funds and private companies.

The requirement for an issuer or parent to have listed securities to qualify for a lower risk weight should be eliminated.

Treatment of Highly Regulated Counterparties Exposures

The punitive risk weights applied to highly regulated counterparties, such as pension funds, collective investment undertakings (including money market funds) and other regulated financial counterparties, where supervisory oversight, investment constraints and risk characteristics are comparable to bank counterparties, creates an unwarranted cliff effect that discourages SFT intermediation with key market participants.

SFT Market Price Volatility Haircuts

The SFT market price volatility haircuts are excessively conservative. For example, a review of non-investment-grade corporate and sovereign bond fair-value changes since 2011 shows maximum declines (10-18% for corporates and 6-16% for sovereigns)[24] that are well below the existing supervisory haircut of 30% for non-financial non-investment-grade collateral.

The latest versions of Basel III across the US, EU and UK would materially increase market price volatility haircuts and reduce collateral recognition, particularly by treating government-sponsored-enterprise securities as corporate debt, which could raise their haircuts by up to four times, despite their strong credit quality and liquidity.

Advocacy Priorities

Standardized approach for short maturity SFTs: Investigate options to improve the standardized approach to fully recognize the short-term nature of SFT exposures in an equivalent manner to the IRB.

[23] The Basel III framework introduces a reduced risk weight for investment-grade corporates, subject to a listing requirement. Implementation of this requirement has proven challenging across jurisdictions, contributing to the divergence observed among the US, EU and UK

[24] ISDA, Securities Industry and Financial Markets Association (SIFMA), ISDA and SIFMA Response to US Basel III NPR, www.isda.org/a/1ElgE/ISDA-and-SIFMA-Response-to-US-Basel-III-NPR.pdf

Risk weights for corporates: Do not include a public listing requirement to qualify for a lower risk weight.

Risk weights for highly regulated counterparties: Allow a materially lower, more risk-aligned risk weight for prudentially supervised, demonstrably low-risk financial counterparties that are externally unrated, such as pension funds, collective investment undertakings (including money market funds) and certain other regulated financial counterparties.

SFT market price volatility haircuts: Assess SFT market price volatility haircuts based on recent market data and review the haircut categories in light of undesired cliff effects, together with potential new categories as appropriate.

CVA for SFTs

SFTs are short-dated and fully collateralized with daily margining, meaning the credit valuation adjustment (CVA) accounting reserve for SFTs is generally zero and CVA is not economically relevant to SFT valuation. SFTs should therefore be excluded entirely from the regulatory CVA framework.

In its draft regulatory technical standard (RTS) on CVA risk[25], the European Banking Authority (EBA) proposes a quantitative 5% materiality threshold for fair-valued SFTs (FV SFTs). If including FV SFTs increases the CVA capital requirement by more than 5%, the transactions must be brought into scope of CVA capital requirements.

The industry views the threshold as overly punitive. It does not reflect the low risk, short dated collateralized nature of SFTs and would produce disproportionate capital charges because the test relies on standalone CVA capital, a highly non linear measure that tends to overstate marginal risk. The proposal also creates a significant operational burden, requiring quarterly full portfolio CVA calculations and infrastructure that captures the entire SFT book, even where only a small fraction is fair valued.

By contrast, other jurisdictions take a more proportionate approach.

- The UK applies non quantitative, accounting based criteria at the transaction level, ensuring CVA for SFTs is only capitalized when appropriate.
- According to the US NPR from 2023, SFTs are not CVA covered positions and are therefore fully outside the CVA capital framework.

Advocacy Priority

CVA for SFTs: SFTs should be excluded entirely from the regulatory CVA framework.

EBA draft RTS for CVA for SFTs: As the EBA draft RTS is now under assessment, the industry recommends the European Commission should not endorse the RTS, which was issued well in advance of the July 2026 mandated delivery date.

[25] EBA, The EBA Publishes its Final Draft Technical Standards on Criteria to Assess the Materiality of CVA Risk Exposures Arising from Securities Financing Transactions, www.eba.europa.eu/publications-and-media/press-releases/eba-publishes-its-final-draft-technical-standards-criteria-assess-materiality-cva-risk-exposures

Basel G-SIB Surcharges for Agency Cleared Repo

Agency activity under the IFRS framework is more likely to be considered on balance sheet and therefore brought into scope for balance-sheet-based G-SIB metrics under the Basel framework. This can create an unlevel playing field, as differences in accounting outcomes under US GAAP and IFRS may result in divergent G-SIB impacts for economically equivalent agency-cleared activity. To support wider access to client clearing across global providers, it is recommended that the Basel framework be refined to ensure G-SIB indicators treat client cleared agency repo activity in a manner that is neutral to accounting outcomes and aligned with economic substance, so agency clearing under IFRS is not structurally penalized.

Advocacy Priorities

Address inconsistent treatment due to accounting regimes: Address the treatment of IFRS agency cleared repo to ensure it is not penalized due to differences in accounting outcomes relative to US GAAP, thereby enabling broader global access for providers supporting client clearing.

G-SIB Method 2 Calibration Effects on Secured Financing

Certain structural features of the US G-SIB Method 2 framework can lead to higher capital requirements for secured financing activity over time, independent of changes in underlying risk. This is particularly relevant for SFTs, where balance sheet usage is largely driven by market structure, client demand and clearing mandates rather than increased fragility.

Certain structural features of the US G-SIB Method 2 framework can lead to higher capital requirements for secured financing activity over time, independent of changes in underlying risk

Method 2 relies on fixed coefficients and global reference aggregates that have not been recalibrated since inception to reflect overall economic growth, expansion in government debt issuance or the increasing scale of market-facing activity. As a result, growth in low risk, collateralized activity – such as Treasury backed repo – can increase systemic scores even when a firm's relative footprint and risk profile remains unchanged. This introduces a structural upward drift in capital requirements that is not directly linked to economic risk.

In addition, the relative weighting of the five Method 2 categories – size, interconnectedness, complexity, cross jurisdictional activity and weighted short term wholesale funding (wSTWF) – has become increasingly imbalanced over time. In particular, wSTWF now contributes a materially larger share of overall Method 2 scores than originally intended, amplifying the capital impact of secured financing activity relative to other indicators of systemic importance. This effect is especially pronounced for Treasury backed repo, which is treated as highly stable under liquidity frameworks, while contributing disproportionately to G-SIB scores through wSTWF.

The mapping of Method 2 scores to surcharge buckets also introduces threshold effects, whereby relatively small balance sheet changes can translate into larger capital impacts. This increases sensitivity to regulatory thresholds and may influence the provision of secured financing at the margin.

Recognizing this issue, the Federal Reserve proposed to replace the existing 0.5% surcharge bands with narrower 0.1% increments in the 2023 US NPR – a reform the industry broadly supports as a means of reducing cliff effects, notwithstanding concerns about other elements of the proposal (including increased reporting frequency).

Taken together, fixed and outdated calibration parameters, increasing reliance on wSTWF and surcharge threshold effects introduce additional frictions in secured financing activity over the cycle. One important transmission channel for these effects is discussed in the following section.

Advocacy Priorities

Address mechanical score drift unrelated to risk: Review the use of fixed coefficients and reference aggregates that cause Method 2 scores to increase automatically with economic growth and balance-sheet expansion, independent of changes in firms' relative systemic footprint.

Rebalance Method 2 to reduce over-reliance on wSTWF: Reassess the relative weights and inputs within Method 2, so wSTWF does not disproportionately drive G-SIB scores for low-risk, fully collateralized secured financing (including Treasury-backed repo). This will ensure the framework remains aligned with the risk characteristics reflected in liquidity standards.

Reduce sensitivity to threshold and bucket effects: Mitigate cliff effects arising from the mapping of scores to surcharge buckets, including by adopting narrower surcharge bands, where modest balance-sheet changes can translate into disproportionate capital impacts.

Weighted Short-term Wholesale Funding

wSTWF is a key channel through which secured financing activity is captured across multiple US prudential frameworks, including the US Method 2 G-SIB surcharge and the large bank tailoring framework. While intended to capture reliance on potentially unstable wholesale funding sources, its current calibration creates significant distortions for SFTs, especially those backed by high-quality sovereign collateral.

wSTWF assigns fixed weights primarily based on maturity and counterparty type and does not sufficiently distinguish between unsecured wholesale funding and fully collateralized secured funding. Treasury-backed repo contributes materially to wSTWF measures, even though this activity is already constrained through leverage ratios, liquidity requirements and other supervisory metrics. This can lead to overlapping prudential effects applied to the same low-risk activity across frameworks.

A core problem is the misalignment between the wSTWF treatment of Treasury repos and treatment in other prudential regimes. Table 1 shows how the same secured funding activity receives radically different supervisory treatments depending on the metric.

Table 1: Treatment of US-Treasury-backed Repos Under the US Capital Framework

Framework	Treatment of US-Treasury-backed Repos
Liquidity coverage ratio	**0% outflow** – viewed as highly stable
G-SIB Method 2 (wSTWF indicator)	**25% weight** – treated as relatively unstable
Large bank tailoring framework	Same penalization mechanism as G-SIB Method 2
Supplementary leverage ratio/enhanced supplementary leverage ratio	SFTs contribute to leverage exposure in a uniform, non-risk-sensitive manner

These inconsistencies mean that secured funding backed by the most liquid, credit risk free assets in the financial system can simultaneously:

- Receive a 0% liquidity penalty under LCR;
- Drive higher G-SIB surcharges through wSTWF; and
- Trigger more stringent capital and liquidity requirements under the tailoring framework.

During periods of market stress, demand for secured funding typically increases as market participants seek liquidity against high-quality collateral. Under the current framework, higher secured financing volumes can raise wSTWF measures under both G-SIB Method 2 and the tailoring framework, increasing sensitivity to regulatory thresholds at a point when balance-sheet flexibility supports market functioning.

Differences in the treatment of the same secured activity across prudential metrics further highlight these effects. For example, Treasury-backed repo may receive favorable treatment under liquidity frameworks, while simultaneously increasing wSTWF-based measures under G-SIB and tailoring rules. This lack of alignment can influence intermediation decisions at the margin and complicate balance-sheet management for low-risk secured financing.

The wSTWF framework was also developed prior to mandatory clearing. While upcoming client cleared repo flows are expected to be treated off balance sheet under US GAAP for the agent, the current wSTWF framework does not explicitly address how to treat this activity. To ensure consistency and avoid unintended penalization, flows facilitated by the clearing agent for client cleared repos should be clearly designated as out of scope for wSTWF assessment, given they do not represent the agent's own funding activity.

Advocacy Priorities

Consistent with the objectives set out in this paper, advocacy related to wSTWF should focus on:

Refining wSTWF calibration for secured financing: Improve differentiation between unsecured wholesale funding and fully collateralized, high-quality secured financing.

Reducing overlapping effects across frameworks: Address cumulative wSTWF impacts where the same secured activity is constrained by both leverage, G-SIB and large bank tailoring rules.

Mitigating threshold sensitivity and procyclicality: Review wSTWF-related thresholds and bucket structures that amplify balance-sheet sensitivity during periods of stress.

Clarify treatment for client-cleared activity: Ensure client-cleared activity is not inadvertently captured within the agent's wSTWF scope.

These priorities aim to improve risk sensitivity and internal consistency in the treatment of secured financing across prudential frameworks, while supporting balanced SFT market functioning across the cycle.

Haircut Floors

Regulatory reforms implemented after the financial crisis included mandatory central clearing of standardized over-the-counter (OTC) derivatives and margin requirements for non-centrally cleared derivatives, which were implemented through the Dodd-Frank Act in the US and the European Market Infrastructure Regulation and Markets in Financial Instruments Regulation in the EU and UK.

By contrast, the post-crisis reform program for SFTs was developed primarily through the Financial Stability Board's (FSB) shadow banking workstream from 2012 to 2015. This work focused on SFT 'margining' through strengthened haircut practices, including the development of a framework of numerical haircut floors for certain non-centrally cleared SFTs to reduce leverage and procyclicality (the FSB recommendations were published in 2013, with the haircut framework finalized in 2014)[26].

These proposals contained three implementation approaches – a market-wide approach, intended to apply beyond regulated banks, including within non-bank secured financing chains, an approach implemented through the Basel Committee on Banking Supervision (BCBS) capital regime for banks, and a hybrid approach that combines the other two. The BCBS ultimately introduced capital standards, but they have not been adopted at the jurisdictional level. Moreover, the BCBS standards explicitly specify that the requirements do not apply to banks in jurisdictions that prohibit transactions below the minimum haircut floors.

The BCBS consulted in November 2015[27] on the application of minimum haircut floors for regulated banks engaging in non-centrally cleared SFTs, proposing a punitive capital charge for in-scope transactions that fail to meet the prescribed haircut floors. These proposals were finalized in December 2017 and subsequently amended in 2021, with the operative requirements now reflected in CRE56[28]. Under this framework, in-scope SFTs that do not meet the minimum haircut floors must be treated as unsecured loans for capital purposes.

Minimum haircut floors are widely viewed as a blunt tool to address the build-up of leverage. Banks typically manage risk and calculate margin at the level of a client's portfolio rather than on a transaction-by-transaction basis

Minimum haircut floors in the capital framework, as set out in the BCBS standards, are not supported across the industry. Although included in the 2023 US NPR, the industry has highlighted the potential negative implications for the SFT market. Minimum haircut floors are not mandated in the EU or UK, or in any other major jurisdiction.

Minimum haircut floors are widely viewed as a blunt tool to address the build-up of leverage. Banks typically manage risk and calculate margin at the level of a client's portfolio rather than on a transaction-by-transaction basis. As a result, transaction-level statistics – such as observations of zero-haircut trades – can be misleading and do not accurately reflect risk management practices applied at the portfolio level.

Advocacy Priorities

Revise minimum haircut floors: Policymakers should not introduce regulation that relies on minimum haircut requirements to address leverage and explicitly rescind the BCBS capital standards on minimum haircut floors. Instead, a more economic, portfolio-based margining approach that allows for a range of prudent risk management approaches should be considered as an alternative to transaction-level haircut floors. The BCBS guidelines for counterparty credit risk management[29] and the Treasury Market Practices Group's best practices for US Treasury markets[30] should serve as the reference framework for achieving this regulatory objective.

[26] Financial Stability Board, Regulatory Framework for Haircuts on Non-centrally Cleared SFTs, www.fsb.org/2014/10/r_141013a/

[27] Basel Committee on Banking Supervision (BCBS), Haircut Floors for Non-centrally Cleared SFTs, www.bis.org/bcbs/publ/d340.htm

[28] BCBS, CRE56 - Minimum Haircut Floors for Securities Financing Transactions, www.bis.org/basel_framework/chapter/CRE/56.htm

[29] BCBS, Guidelines for Counterparty Credit Risk Management, www.bis.org/bcbs/publ/d588.pdf

[30] Treasury Market Practices Group, Best Practices, www.newyorkfed.org/tmpg/best_practices.html

Mandatory Clearing

While post-crisis reforms introduced mandatory central clearing for standardized OTC derivatives, it is only more recently that mandates for SFTs have been considered and implemented. In the US, the SEC proposed rules in October 2022 that would require central clearing for certain US Treasury cash and repo transactions (to which the industry responded in December 2022[31]), with final rules adopted in December 2023 and compliance dates subsequently extended to December 31, 2026 for cash US Treasury transactions and June 30, 2027 for US Treasury repo transactions[32]. In the UK, the BoE launched a discussion paper in September 2025 on enhancing the resilience of the gilt repo market, which explored the prospect of greater central clearing and minimum haircuts for non-cleared activity[33]. The industry responded to this consultation in November 2025[34].

While CCPs have introduced anti-procyclicality measures to moderate margin spikes, such as buffers, floors and discretionary overrides, empirical evidence shows that margin requirements can still become procyclical in practice

While CCPs have introduced anti-procyclicality measures to moderate margin spikes, such as buffers, floors and discretionary overrides, empirical evidence shows that margin requirements can still become procyclical in practice.

Advocacy Priorities

Support appropriate incentives to make central clearing attractive: Support risk-appropriate regulatory, financial policy and capital incentives to make voluntary central clearing of SFTs more attractive, reflecting the role of central clearing in today's financial landscape. It is also important to recognize that there are valid reasons why market participants may elect not to clear.

Support measures to reduce procyclicality in CCP margin requirements: Support measures that enhance the transparency, predictability and governance of CCP margin models, including clearer communication of parameter changes and calibration methodologies.

Leverage Ratio Reform

The key objective of leverage ratio reform should be to ensure the ratio functions as a backstop to risk-based capital requirements, rather than as a binding constraint[35]. When it becomes the binding constraint, low-risk, balance-sheet-intensive activities are disproportionately penalized, including intermediation in the government bond and repo markets that are central to market functioning and financial stability.

[31] ISDA, Response to SEC US Treasury Clearing Proposal, www.isda.org/2023/01/03/isda-response-to-sec-us-treasury-clearing-proposal/

[32] SEC, Treasury Clearing Implementation, www.sec.gov/securities-topics/treasury-clearing-implementation

[33] Bank of England (BoE), Enhancing the Resilience of the Gilt Repo Market, www.bankofengland.co.uk/paper/2025/discussion-paper/enhancing-the-resilience-of-the-gilt-repo-market

[34] ISDA, ISDA Response to BoE DP on Gilt Market Resilience, www.isda.org/a/GnvgE/ISDA-Responds-to-Bank-of-England-on-Gilt-Market-Resilience.pdf

[35] The US enhanced supplementary leverage ratio (eSLR) framework requires global systemically important banks (G-SIBs) to maintain a minimum SLR of 3%, together with a buffer equal to one-half of the firm's Method 1 G-SIB surcharge. The EU leverage ratio framework applies a 3% minimum requirement, supplemented by a G-SIB leverage buffer set at 50% of the applicable G-SIB surcharge. The UK leverage ratio framework requires a minimum leverage ratio of 3.25%, in addition to two buffers: (i) an additional leverage ratio buffer (ALRB) equal to 35% of the firm-specific systemic risk buffer rate; and (ii) a countercyclical leverage buffer (CCLB) equal to 35% of the prevailing countercyclical capital buffer rate

Paradoxically, the safest portions of a dealer's SFT activity – narrow matched book repos backed by high quality collateral – can consume a disproportionate amount of leverage capacity. The largely gross leverage exposure measure results in these low risk transactions attracting leverage usage similar to that of riskier activities. This misalignment with economic risk can discourage participation in market stabilizing repo intermediation.

Government Bond and Repo Exemptions from the Leverage Exposure

There is precedent for regulators revising the leverage ratio during exceptional macroeconomic circumstances. During the COVID era, regulators in some jurisdictions temporarily excluded government bonds and related repos from the leverage ratio denominator (including the supplementary leverage ratio (SLR) in the US) to relieve acute balance-sheet pressures and support market functioning. This demonstrates that these exclusions can serve as an effective and targeted safety valve. Global regulators should reaffirm their authority to exempt government bonds and repos from the leverage exposure denominator, including in exceptional macroeconomic or market-stress circumstances. These exemptions would complement – not replace – broader capital reforms, help ensure the leverage ratio functions as a true backstop rather than a binding constraint, and preserve banks' capacity to intermediate in government bond and repo markets across the economic cycle.

Balance Sheet Rationing During Periods of Stress

The design of the leverage ratio can be further amended to better recognize SFTs. A structural feature of most leverage ratio frameworks globally is the predominantly gross treatment of SFTs, with little or no recognition of the high quality collateral securing these transactions. Netting relief is typically available only under narrowly defined conditions – such as strict matching of maturity, currency and counterparty – which significantly limits institutions' ability to optimize balance sheet usage.

As market volatility increases, leverage ratio constraints often become the binding limit for many dealers. They may respond by curtailing repo activity, which can reduce the availability of secured funding and impair the broader market's ability to absorb shocks

As market volatility increases, leverage ratio constraints often become the binding limit for many dealers. They may respond by curtailing repo activity, which can reduce the availability of secured funding and impair the broader market's ability to absorb shocks.

Advocacy Priorities

Government bond and repo exemptions: Explore whether recent exclusions of government bonds and related repos from the leverage ratio during stress periods to support market liquidity could or should be made permanent.

Expand netting recognition for economically matched SFT portfolios: Broaden leverage ratio netting eligibility to reflect economically matched repo books, provided risk management and enforceable close-out netting protections are in place.

Liquidity Framework Alignment

Liquidity regulations – particularly the LCR and NSFR – play a central role in shaping banks' capacity to intermediate in SFT markets. During periods of stress, these metrics often become binding, restricting dealers' willingness to provide secured funding even against high quality collateral.

- **LCR:** Requires banks to maintain sufficient high quality liquid assets (HQLA) to withstand 30 day stressed outflows. During periods of heightened volatility, this can make cash out repo positions LCR-intensive, reducing banks' appetite to lend cash.
- **NSFR:** Imposes requirements for long term stable funding. Many SFT assets attract required stable funding (RSF) factors that exceed their true liquidity risk, discouraging term repo activity and limiting maturity transformation.

In particular, the lack of alignment between RSF and available stable funding (ASF) factors for short-dated (ie, under six-month) SFTs and the asymmetric treatment of collateral swaps – where rehypothecated off-balance-sheet assets attract an RSF but the corresponding off-balance-sheet liability receives no ASF recognition – further constrain balance-sheet capacity and distort economically neutral transactions.

Beyond the LCR and NSFR, supervisory expectations that go beyond the minimum standards – such as those related to the treatment of repo matched books – can create additional constraints. Taken together, these dynamics can limit dealers' ability to sustain balanced matched book repo activity and reduce secured funding capacity precisely when market functioning relies most on stable intermediation.

These constraints are further compounded by the fact that centrally cleared repos receive no preferential treatment under the NSFR. Despite their demonstrated stability, centrally cleared transactions do not benefit from lower RSF factors. In some cases, clearing can even remove stable funding recognition that would otherwise apply to bilateral trades.

Meanwhile, the LCR framework in the EU excludes open maturity reverse repos from the 30 day horizon, inflating reported outflows and reducing the attractiveness of providing open ended secured financing, even when backed by high quality collateral.

Advocacy Priorities

Reconsider the treatment of open maturity reverse repos in the EU LCR: Including these transactions within the 30 day LCR horizon in line with other jurisdictions would avoid overstating outflows and restore the economic rationale for providing open ended secured financing.

Reduce excessive RSF factors for SFT related assets under the NSFR: Calibrating RSF requirements to reflect the actual liquidity characteristics of SFT assets would enhance market making capacity and improve the economics of term repo.

Other priorities related to ASF and RSF treatment: Align ASF and RSF treatment for short-dated SFTs and address the asymmetric ASF/RSF treatment of rehypothecated collateral swaps.

Revise the NSFR to recognize the stability of centrally cleared repo: Restructuring the NSFR framework to remove disincentives to centrally clear repo – particularly with selected counterparties, such as non-financial corporates and public-sector entities – and better recognize the stable funding benefits of central clearing through more appropriate ASF and RSF calibrations.

ACCOUNTING AND CROSS PRODUCT NETTING

Cross-product netting across SFTs and derivatives[36] can improve liquidity in times of market stress, because legally enforceable set-off rights across SFTs and derivatives can reduce gross exposures, overcollateralization and funding needs at precisely the moment when balance sheet capacity is most constrained. Corresponding cross-margining can similarly reduce overcollateralization and funding needs. However, differences between the US GAAP and IFRS accounting frameworks – particularly their balance sheet offsetting models – can result in materially different accounting outcomes and make it difficult for cross-product netting to be reflected on the balance sheet, except in limited circumstances.

Cross-product netting across SFTs and derivatives can improve liquidity in times of market stress, because legally enforceable set-off rights across SFTs and derivatives can reduce gross exposures, overcollateralization and funding needs at precisely the moment when balance sheet capacity is most constrained

Following the financial crisis, an FSB report to the G-20[37] reviewed weaknesses in the global financial system and mandated action by global regulators. It recommended the development of a single set of high-quality global accounting standards, and specifically noted the problems posed by differences in netting/offsetting requirements.

Despite these efforts, two separate accounting frameworks remain in place. Offsetting rules continue to represent a material difference between IFRS and US GAAP for banks with large derivatives, repo and SFT portfolios.

Both US GAAP and IFRS impose strict conditions on balance-sheet netting, limiting the ability to offset exposures across SFTs and derivatives. Under US GAAP, netting presentation may be achieved only in very limited circumstances, while IFRS generally requires gross presentation even when close-out netting is legally enforceable[38,39].

Even where legal documentation allows SFTs and derivatives to be closed out, netted and economically offset upon default, firms are often required to present exposures gross on the balance sheet, rather than reflecting the underlying net economic exposure. Gross presentation inflates balance sheets, constrains leverage and funding metrics and can lead to duplicative collateral posting, reducing the availability of cash and high-quality liquid assets. These effects are most acute in periods of market stress when volatility rises, margin calls increase and operational processes are under strain.

Economic accounting treatment of the activities of clearing broker firms when centrally clearing SFT transactions for their clients also remains unresolved under US GAAP and IFRS. The advancement of models for centrally cleared client transactions has served to reinforce the role of the clearing broker as 'agent' rather than 'principal' in the transaction flow from a legal, operational and risk management perspective. The misalignment between economic substance and accounting treatment impairs the potential for central clearing to bring efficiencies to the market.

[36] ISDA, Accounting for Cross-product Netting, www.isda.org/a/eGqgE/Accounting-for-Cross-product-Netting.pdf

[37] FSB, Improving Financial Regulation, www.financialstabilityboard.org/publications/r_090925b.pdf

[38] ISDA, Accounting for Cross-product Netting, www.isda.org/a/eGqgE/Accounting-for-Cross-product-Netting.pdf

[39] The paper notes that, in limited circumstances, certain legs of transactions may be netted, but cross-product net presentation is generally rare and "only achieved in highly structured transactions". It further states that cross-product netting is possible only where: (i) transactions are executed under a single master netting agreement; (ii) there is a legally enforceable right of set-off across products; (iii) the entity has a demonstrable history of settling these transactions on a net basis; and (iv) the transactions are operationally settled net, evidencing intent

Advocacy Priorities

Harmonize principles for balance sheet offsetting that otherwise hinder effective cross-product netting: Harmonize principles for balance sheet offsetting so legally enforceable netting rights are consistently acknowledged across SFTs and derivatives to help mitigate gross balance-sheet inflation, provide a more accurate representation of economic risk, enhance investment evaluation and reduce costs associated with audits, compliance, reconciliation, data management and system reporting for global banks.

Harmonize capital frameworks to apply consistent treatment for the same activity, agnostic of the applicable accounting regime: Where differences in accounting treatment for client cleared transactions exist, capital frameworks should apply consistent standards to ensure economically identical activity is treated uniformly. This will help prevent inadvertent penalization of client clearing and support broader access across global client clearing providers.

DATA, DIGITAL AND EMERGING TRENDS

Common Data Standards: CDM and DRR

Industry initiatives like the CDM and the ISDA DRR enable broader digitization across the transaction lifecycle. Digital documentation, smart contract execution and digitized representations of eligible collateral, including tokenized collateral, can support real-time data sharing, consistent lifecycle processing and cross-product workflow automation. When combined with interoperable technology platforms, these capabilities can strengthen operational resilience, reduce settlement and reconciliation risk, improve liquidity management and reduce funding costs across the ecosystem.

Digital documentation, smart contract execution and digitized representations of eligible collateral, including tokenized collateral, can support real-time data sharing, consistent lifecycle processing and cross-product workflow automation

These standards also offer a path toward harmonized, machine-readable representations of trade lifecycle events across SFTs, derivatives and other financial products. By providing standardized data structures, event definitions and executable logic, the CDM and ISDA DRR can significantly reduce operational complexity, improve the accuracy and consistency of regulatory submissions, and enhance the ability of supervisors to aggregate and analyze data across firms and products.

Regulatory reporting requirements vary widely across jurisdictions, and global banks often face significant operational burdens in meeting divergent supervisory expectations. Differences in data fields, lifecycle definitions and reporting formats across markets lead to duplication, manual reconciliations and inconsistent regulatory outcomes. As a result, firms are frequently required to submit multiple reports covering the same underlying transaction to different authorities, often using slightly different definitions and technical standards.

These frictions become more acute during periods of market stress, when timely and accurate reporting is essential for effective oversight and systemic risk monitoring. In these conditions, duplicative and inconsistent reporting can hinder supervisors' ability to aggregate data efficiently and obtain a clear view of market dynamics.

Advocacy Priorities

Promote CDM/DRR standards: Common lifecycle definitions and executable data models reduce operational complexity and improve the accuracy and comparability of regulatory reporting.

Showcase operational benefits of digitized documents, smart contracts and workflow automation: Demonstrating the efficiency, accuracy and resiliency gains from digital documentation and automated lifecycle processing would accelerate adoption and strengthen industry wide support for standardized digital reporting frameworks.

Eliminate duplicative reporting requirements and enable single sided reporting: Rationalizing overlapping data submissions would reduce operational workload, minimize reconciliation breaks and support more streamlined supervisory oversight.

Digital Collateral, Near-instantaneous Settlement and STM

Advances in digital collateral infrastructure have the potential to transform collateral mobility and improve market resilience, particularly during periods of heightened volatility. Tokenization – defined as the digital representation of traditional financial assets or funds on secure platforms – enables near instantaneous settlement of SFTs and derivatives, including digital/tokenized collateral. By substantially reducing settlement frictions, tokenized collateral can lower operational fails, streamline collateral movements and support more frequent exposure resets that are economically similar to STM mechanisms used in certain close out and variation margin workflows.

Advances in digital collateral infrastructure have the potential to transform collateral mobility and improve market resilience, particularly during periods of heightened volatility

Near instantaneous or event driven settlement models also reduce the latency associated with traditional batch based clearing processes, enabling collateral to be posted, substituted and/or returned in real time. This increases the velocity of collateral across SFT and derivatives markets, expanding effective supply without requiring additional balance sheet capacity and reducing funding costs associated with over-collateralization. In stress conditions – where delays in settlement and collateral transfers can amplify liquidity pressures – digital collateral solutions offer the potential for greater transparency, certainty of movement and operational robustness.

As market participants explore tokenization and near instantaneous settlement, emerging industry work is focused on developing governance frameworks that ensure legal enforceability, interoperability with existing infrastructures and alignment with regulatory expectations. Over time, these capabilities should reduce manual processing, such as cash release currently conducted under free-of-payment conditions, harmonize lifecycle events across products and support the adoption of STM like settlement protocols across a broader range of SFT and derivatives transactions.

Because near-instantaneous, event-driven settlement materially shortens the effective margin period of risk, regulatory capital rules should explicitly recognize these reduced settlement and replacement-cost risks – allowing firms to benefit from corresponding reductions in EAD. To support safe adoption at scale, regulated testing environments should be established to evaluate technology, settlement flows and legal enforceability in digital collateral workflows – helping supervisors and firms validate risk controls for tokenized collateral.

While digitization increases efficiency, it also implies new operational dependency on digital processes with potentially increased operational risk arising from:

- Increased cyber and technology risks increasing with digital infrastructure;
- Smart contract and automation failures;
- Interoperability and integration challenges between digital and legacy systems;
- New custody/key management risks for digital assets; and
- Parallel system operational risks during digitization transitions.

Advocacy Priorities

Regulatory capital criteria for near instantaneous settlement to enable reductions in margin period of risk: Explore the benefits of event driven or near real time settlement models, and this should be reflected in the margin period of risk within regulatory capital frameworks.

Support testing frameworks to validate risk controls for digital collateral workflows: Controlled environments for experimentation would allow firms and supervisors to evaluate technology, settlement and legal enforceability risks in tokenized collateral processes, helping to build confidence in digital workflows and support their safe adoption at scale.

Crypto Asset Prudential Standards

A crypto-asset taxonomy developed by the BCBS[40] gives preferential treatment to SFTs referencing crypto assets categorized as 'Group 1' (ie, Group 1a tokenized traditional assets and Group 1b regulated stablecoins). To meet strict Group 1 classification conditions – most notably, prescriptive ledger requirements (including the expectation of permissioned systems) – banks must demonstrate that the underlying ledger ensures legal enforceability and settlement finality. Group 1b stablecoins must also meet stringent redeemability and reserve-asset standards.

These conditions are outdated and overly rigid, failing to reflect advancements in distributed ledger technology (DLT), the emergence of regulated stablecoin regimes and real-world risk controls now common across both permissioned and permissionless networks. The framework should be technology-neutral and principles-based, allowing tokenized traditional assets and regulated stablecoins regardless of the underlying DLT to qualify for Group 1 treatment. Without such revisions, the current design forces these assets into punitive Group 2 treatment with exposures receiving a 1,250% risk weight, limiting bank participation and pushing activity outside the regulated sector.

Furthermore, the crypto-asset taxonomy only recognizes Group 1a tokenized traditional assets as eligible collateral. SFTs referencing other crypto assets (eg, Group 1b regulated stablecoins and Group 2a liquid cryptocurrencies) are not eligible as collateral and are likely to be subject to punitive capital treatment.

In early March 2026, the US federal banking agencies – the Federal Reserve, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency – jointly issued frequently asked questions (FAQs)[41] clarifying the interim capital treatment of tokenized securities. The FAQs confirm four key principles: (1) tokenized securities should receive the same capital treatment as their non-tokenized equivalents; (2) eligible tokenized securities may be recognized as financial collateral and are subject to the same supervisory haircuts as comparable traditional securities; (3) no distinction in prudential treatment should depend on whether the underlying distributed ledger is permissioned or permissionless; and (4) banks must continue to apply sound risk management practices and comply with all applicable regulations. These clarifications demonstrate that prudential frameworks can recognize tokenization without imposing punitive or technology-prescriptive requirements. ISDA encourages the BCBS standards to adopt these same principles, ensuring globally consistent and technology-neutral capital treatment.

The industry supports drawing a clear distinction between regulated and unregulated Group 1b stablecoins. Their risk profiles are fundamentally different and the capital rules should recognize that

The industry supports drawing a clear distinction between regulated and unregulated Group 1b stablecoins. Their risk profiles are fundamentally different and the capital rules should recognize that, particularly as regulated stablecoins are designed to be redeemable for their pegged assets. They should therefore be eligible as collateral, just like traditional collateral with a value derived

[40] BCBS, SCO60 – Cryptoasset Exposures, www.bis.org/basel_framework/chapter/SCO/60.htm

[41] Federal Reserve, Capital Treatment of Tokenized Securities Frequently Asked Questions, www.federalreserve.gov/supervisionreg/capital-treatment-of-tokenized-securities-faqs.htm

from underlying assets. The fact there is some degree of redemption risk should not preclude regulated stablecoins from collateral recognition.

Group 2a crypto assets include cryptocurrencies with deep and liquid markets, in which market participants have the ability to hedge exposures using ETFs or derivatives traded on a regulated exchange. Group 2a crypto assets are not recognized as eligible collateral under the BCBS standards, even though they meet the legal enforceability, close-out and liquidity requirements applied to other collateral types.

Allowing Group 2a crypto assets to qualify as eligible collateral would remove a structural barrier that currently limits bank participation in crypto financing markets. Some exchanges are already moving toward accepting crypto assets as collateral, indicating market readiness for such treatment under the prudential rules.

Advocacy Priorities

Provide updated supervisory guidance for Group 1 classification conditions: Establishing transparent, technology-neutral and principles-based regulatory criteria for inclusion in Group 1 – consistent with the provisions in the FAQs recently published by US agencies – is essential to ensure the framework remains robust and adaptable. These criteria should focus onthe economic substance and risk profile of the exposure rather than the specific technology used to issue, record or transfer it. This approach would provide firms with greater certainty that high quality exposures are not subject to the cliff effect of a punitive 1,250% risk weight and would allow the prudential framework to evolve in step with real-world technological advancements.

Accept regulated Group 1b stablecoins and liquid Group 2a crypto assets as collateral: Accepting regulated Group 1b stablecoins and liquid Group 2a crypto assets as collateral for lending, repo and derivatives margin.

DATA COLLECTION CONSIDERATIONS

ISDA will consider performing data collection exercises similar to the quantitative impact studies (QIS) used in derivatives advocacy. Potential QIS topics include:

- A comparison of extended SA-CCR (incorporating the benefits of cross-product netting) with the internal models method (IMM). This analysis could be conducted using hypothetical portfolios, as well as through a QIS-style exercise based on real portfolios.
- A QIS to quantify the capital impact of recognizing the short maturity of SFTs and applying lower risk weights to counterparties subject to prudential standards.
- Procyclicality in margin requirements could be monitored through the collection of market volatility data compared to CCP initial margin requirements.
- To date, data collection to support minimum haircuts has been at the transaction level, with high-level statistics (for example, that 70% of non-centrally cleared repo transactions operate with zero haircuts) leading to mistaken conclusions. A well-designed data collection exercise at both the portfolio and transaction level would be useful to evaluate whether minimum haircuts have any genuine risk mitigation benefit or whether other approaches would better address leverage buildup.
- Proposals to make the LCR and NSFR more risk-appropriate would be best assessed through a traditional QIS exercise.
- The EU recommended treatment of open-maturity reverse repos in the LCR could be supported by analysis of maturity profiles for these trades compared to trades in other jurisdictions.
- The impact of near-instantaneous settlement on the regulatory framework for SFTs would be best analyzed through sandbox-style exercises.

FSB Report on Vulnerabilities in Government-bond-backed Repo Markets

A recent FSB report[42] set out a comprehensive set of metrics for the surveillance of vulnerabilities in government-backed repo markets. As currently described, these metrics provide only point-in-time measurements and offer limited guidance on how they should be interpreted. For several metrics, it is unclear whether an increase or decrease would signal elevated risk in the period before market stress. To be most effective, these metrics should be embedded within an early warning system, supported by clearly defined thresholds and associated supervisory response frameworks.

[42] FSB, Vulnerabilities in Government Bond-backed Repo Markets, www.fsb.org/2026/02/vulnerabilities-in-government-bond-backed-repo-markets/

CONCLUSION

SFTs sit at the center of modern market functioning by enabling liquidity distribution, collateral mobility, efficient funding and the smooth operation of market-based intermediation across both cash and derivatives markets. Their importance is evident in normal times, when they underpin balance sheet mobility and support efficient risk transfer, and in stress periods, when they can either absorb shocks or, if constrained by structural frictions, unintentionally amplify volatility.

Over the past decade, regulatory reforms, such as mandatory clearing and margin requirements for non-cleared derivatives, have brought derivatives and SFT markets closer together, strengthening the ecosystem and promoting more integrated collateral and liquidity management. At the same time, advances in technology, ranging from real-time collateral mobility to emerging digital settlement frameworks, are reshaping the operational foundations of both markets. These developments are creating new opportunities for efficiency and transparency, but they also heighten the need for regulatory frameworks that evolve in parallel.

Well-designed, proportionate and technologically informed reforms can simultaneously reduce systemic fragilities, enhance liquidity and collateral mobility and support safer and more efficient SFT markets

Despite these advances, longstanding frictions continue to constrain the ability of SFT markets to serve as a resilient source of liquidity under stress. Divergent prudential frameworks, inconsistent treatment of SFTs relative to derivatives, leverage ratio constraints, mismatched liquidity requirements and fragmented reporting regimes all impede the smooth functioning of secured funding markets.

Looking ahead, a more coherent, risk-appropriate and future-proof framework for SFTs is essential. Achieving this requires:

- Recognizing the central role SFTs play in liquidity, financing and collateral optimization;
- Addressing procyclical frictions that cause SFT markets to amplify stress;
- Reducing unnecessary fragmentation between SFTs and derivatives markets;
- Updating prudential and market regulations to reflect modern market structure; and
- Ensuring new technologies are supported by appropriately calibrated and timely regulation.

Taken together, the evidence provided in this whitepaper points towards a clear conclusion: well-designed, proportionate and technologically informed reforms can simultaneously reduce systemic fragilities, enhance liquidity and collateral mobility and support safer and more efficient SFT markets. The objective is not to expand risk-taking but to ensure secured funding markets remain resilient, flexible and aligned with the broader structure of modern financial markets.

By addressing these structural issues now, policymakers, market participants and infrastructure providers can help shape a framework that preserves the essential functions of SFTs, supports the stability of SFT markets and positions secured financing markets to adapt safely to future developments in technology, regulation and market structure.

ISDA CONTACTS

Mark Gheerbrant
Global Head of Risk & Capital
mgheerbrant@isda.org

Panayiotis Dionysopoulos
Global Head of Financial & Enterprise Risk
pdionysopoulos@isda.org

Lisa Galletta
Head of US Prudential Risk
lgalletta@isda.org

ABOUT ISDA

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 78 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on LinkedIn and YouTube.