INVESTMENT COMPANY INSTITUTE

1401 H Street, NW, Washington, DC 20005-2148, USA
202/326-5800 www.ici.org

August 19, 2022

Office of the Assistant Secretary for Financial Markets
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Re: Notice Seeking Public Comment on Additional Transparency for Secondary Market Transactions of Treasury Securities (Docket No. TREAS-DO-2022-0012)

Dear Sir or Madam:

The Investment Company Institute[1] appreciates the opportunity to comment on the notice and request for information (RFI) of the Department of the Treasury ("Treasury") on additional post-trade transparency of data regarding secondary market transactions in Treasury securities.[2] Registered investment companies ("funds") are important and significant investors in the Treasury securities markets. As such, funds have a strong interest in ensuring the integrity, quality, and well-functioning of the Treasury market under all market circumstances.

The RFI seeks comment on the potential benefits and risks of additional post-trade transparency of data on secondary market transactions in Treasury securities. Generally, ICI members believe that public transparency of Treasury market data may benefit the market and investors, provided the transparency of the data is carefully calibrated, such that the risks do not outweigh the benefits. Members support dissemination of aggregated data about Treasury market transactions. We urge Treasury, before considering further post-trade transparency in the Treasury market, to first assess the results of FINRA's recent rule amendment that will permit it to publish aggregated Treasury data more frequently than weekly, potentially even daily. Treasury should wait an appropriate period of time after any more frequent publication of aggregated Treasury

[1]The Investment Company Institute (ICI) is the leading association representing regulated investment funds. ICI's mission is to strengthen the foundation of the asset management industry for the ultimate benefit of the long-term individual investor. Its members include mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and UCITS and similar funds offered to investors in Europe, Asia and other jurisdictions. Its members manage total assets of $28.1 trillion in the United States, serving more than 100 million investors, and an additional $9.3 trillion in assets outside the United States. ICI has offices in Washington, DC, Brussels, London, and Hong Kong and carries out its international work through ICI Global.

[2] *See* Department of the Treasury, *Notice Seeking Public Comment on Additional Transparency for Secondary Market Transactions of Treasury Securities*, 87 Fed. Reg. 38259 (June 27, 2022), *available at* https://www.govinfo.gov/content/pkg/FR-2022-06-27/pdf/2022-13540.pdf (RFI).

data by FINRA to assess its effect on the market and market participants, and then reassess whether further post-trade public transparency may be appropriate.

Most ICI members have concerns about public dissemination of transaction-level data about Treasury market transactions because such data risks publicly identifying large investors and may result in front-running and other predatory trading practices. If Treasury further considers publication of transaction-level data, to address these concerns, we urge Treasury to subject such data to appropriately calibrated block thresholds, dissemination delays, and caps that are based on data Treasury has received from regulatory reporting of Treasury securities. We strongly support phasing in any additional public transparency over time.

More broadly, we recommend that Treasury incorporate into any public reporting regime a mechanism or process that ensures input from all market participants, including funds. This process should incorporate periodic review and re-evaluation of whether changes to the public reporting regime are necessary or appropriate, including potential changes to block trade thresholds, dissemination delays, and caps, based on subsequent market data and events.

I. Background

Funds transact in Treasury securities for various reasons, using different investment strategies. For example, funds may use Treasury securities to obtain desired exposure, to hedge risk associated with investments in other markets, to diversify their portfolios, and to protect capital, among other strategies. As end users of Treasury securities, funds trade with dealers or other intermediaries primarily in the dealer-to-customer market, typically over the phone or through request-for-quote trading platforms.

Because funds, like all market participants, value the significant liquidity of the market for Treasury securities, ICI members support measures that promote this important attribute of the Treasury market. As discussed further below, post-trade public transparency, if appropriately calibrated, may be helpful in promoting liquidity. Most ICI members believe that, absent such calibration, however, it also may negatively affect liquidity. In the past, our members have reported satisfactory liquidity in the Treasury cash market, acknowledging that liquidity has diminished somewhat in recent years, at least in the dealer-to-customer portion of the market.[3] More recently, during the volatility in the Treasury market in March 2020 resulting from the COVID-19 crisis, ICI members, like other market participants, experienced significantly higher

[3] Our members report that a number of factors potentially have contributed to the reduced liquidity in the dealer-to-customer portion of the Treasury cash market, particularly with respect to off-the-run and other thinly traded Treasury securities, including new regulations that have affected the operations and capital structure of banks and broker-dealers, and dealers scaling back bond inventories and market making activities.

bid-ask spreads and much larger differences in pricing between on-the-run and off-the-run Treasury securities, with significantly less liquidity in the off-the-run issues.[4]

Since 2017, FINRA members have been required to report secondary market transactions in Treasury securities (*i.e.*, bills, notes, bonds, floating rate notes (FRNs), inflation-protected securities (TIPS), and Separate Trading of Registered Interest and Principal Securities (STRIPS)) to TRACE.[5] This information is shared with Treasury and other regulators, including the SEC, to provide the official sector with data to monitor the US Treasury market. In 2020, FINRA began publicly releasing weekly aggregate volumes of Treasury transactions reported to TRACE and recently, in response to a request from Treasury, FINRA amended its Rule 6750 to permit more frequent publication of aggregate Treasury data, potentially as frequently as daily.[6] Other regulators and working groups recently have expressed support for transaction-level public transparency in the Treasury market.[7]

---

[4] *See* Investment Company Institute, Report of the COVID-19 Market Impact Working Group: The Impact of COVID-19 on Economies and Financial Markets (Oct. 2020), at 21-25, *available at* https://www.ici.org/system/files/private/2021-04/20_rpt_covid1.pdf ("Report of the COVID-19 Market Impact Working Group").

[5] In 2016, ICI submitted a comment letter in response to a request for information by Treasury on the evolution of the Treasury market structure in which we addressed, among other issues, the implications of public reporting of Treasury market transactions. *See* Letter to Office of the Under Secretary for Domestic Finance, Department of the Treasury, from David W. Blass, General Counsel, Investment Company Institute, dated Apr. 8, 2016, *available at* https://www.ici.org/system/files/attachments/29819.pdf. We subsequently commented on a proposal by FINRA to require its members to report transactions in Treasury securities to TRACE, in which we supported FINRA's decision at that time to not propose a public dissemination requirement. *See* Letter to Mr. Brent J. Fields, Secretary, US Securities and Exchange Commission, from David W. Blass, General Counsel, Investment Company Institute, dated Aug. 15, 2016, *available at* https://www.ici.org/system/files/attachments/30130.pdf.

[6] *See Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Order Approving a Proposed Rule Change to Amend FINRA Rule 6750 Regarding the Publication of Aggregated Transaction Information on U.S. Treasury Securities*, Securities Exchange Act Release No. 34-95438 (Aug. 5, 2022), 87 Fed. Reg. 49626 (Aug. 11, 2022), *available at* https://www.sec.gov/rules/sro/finra/2022/34-95438.pdf.

[7] For example, SEC Chair Gary Gensler recently remarked:

> I also think it may be time for FINRA to consider allowing the investing public to see TRACE data on individual Treasury transactions. . . . Public dissemination of Treasury trade data could help enhance counterparty risk management and the evaluation of trade execution quality. It also could expand the provision of liquidity.

SEC Chair Gary Gensler, "The Name's Bond:" Remarks at City Week (Apr. 26, 2022), *available at* https://www.sec.gov/news/speech/gensler-names-bond-042622. In addition, the Group of Thirty (G30) recently published its 2022 status update on Treasury market resilience, which also includes a recommendation on post-trade transparency:

> Recommendation 8: The TRACE reporting system should be expanded to capture all transactions in U.S. Treasury securities and Treasury repos, including those of commercial bank dealers and principal trading firms. Furthermore, subject to a cap on the disclosed size of trades, the data should be publicly disclosed in a manner similar to the way that data on corporate bond transactions are currently disclosed.

In recent years, regulators have sought to reduce reporting gaps in the Treasury market and to enhance the quality of the data reported. We commend regulators for these efforts. They are critical to ensuring all segments of the Treasury market are subject to regulatory reporting and monitoring. Additionally, these efforts ensure that the official sector obtains comprehensive, high-quality data about this important market, which should be a prerequisite to considering any additional public reporting, including at the transaction level. For example, the SEC recently has proposed rules that would result in key intermediaries in the Treasury market, such as principal trading firms (PTFs), being required to register as dealers and report Treasury transactions to FINRA.[8] Further, in October 2021, the Federal Reserve Board adopted a proposal that would require certain banks to report Treasury transactions to TRACE.[9] We note, however, that foreign institutions, particularly foreign banks, are significant participants in the Treasury markets and

---

Group of Thirty, Status Update 2022: U.S. Treasury Markets, Steps Toward Increased Resilience (June 30, 2022), *available at* https://group30.org/images/uploads/publications/G30_Treasury-Mkts-UPDATE_Final_Report.pdf.

[8] *See Further Definition of "As a Part of a Regular Business" in the Definition of Dealer and Government Securities Dealer*, Securities Exchange Act Release No. 94524 (Mar. 28, 2022), 87 Fed. Reg. 23054, 230889 (Apr. 18, 2022). In the proposal, the SEC states that "[t]he [SEC's proposed rules] are designed to target persons whose activities can significantly impact markets or who otherwise trade large volumes of U.S. Treasury Securities; requiring such persons to inform regulators of their activities further promotes market stability, investor protection, and capital formation." ICI expressed its understanding that the SEC intends to capture PTFs and similar firms that act as major liquidity providers, but also emphasized that focusing on the effect, rather than purpose, of market participants' trading activity with respect to providing liquidity could inappropriately treat traditional, ordinary course trading activities as dealing activity. *See* Letter to Ms. Vanessa A. Countryman, Secretary, SEC, from Sarah A. Bessin, Associate General Counsel, and Nhan Nguyen, Assistant General Counsel, Investment Company Institute at 7, dated May 27, 2022, *available at* https://www.sec.gov/comments/s7-12-22/s71222-20129683-295958.pdf. Recently, the SEC also proposed to require a system that trades government securities or repos and reverse repos on government securities to comply with Regulation ATS and Regulation SCI. *See Amendments to Exchange Act Rule 3b-16 Regarding the Definition of "Exchange" and Alternative Trading Systems (ATSs) That Trade U.S. Treasury and Agency Securities, National Market System (NMS) Stocks, and Other Securities,* Securities Exchange Act Release No. 94062 (Jan. 26, 2022), 87 Fed. Reg. 15496 (Mar. 18, 2022). ICI expressed general support for this requirement as a means to promote operational transparency, investor protection, fair access, and system security and resiliency, as well as more "all-to-all" trading. *See* Letter to Ms. Vanessa A. Countryman, Secretary, SEC, from Sarah A. Bessin, Associate General Counsel, and Nhan Nguyen, Assistant General Counsel, Investment Company Institute at 1-2 n.3, dated Apr. 18, 2022, *available at* https://www.sec.gov/comments/s7-02-22/s70222-20124231-280809.pdf. Most recently, the SEC re-proposed amendments to Rule 15b9-1 under the Exchange Act, which exempts certain registered brokers or dealers from membership in a registered national securities association. The re-proposed amendments would narrow these exemptions, resulting in certain firms, including some PTFs, that are not FINRA members, becoming subject to FINRA's rules, including the obligation to report their US Treasury securities transactions in the TRACE system. *See Exemption for Certain Exchange Members,* Securities Exchange Act Release No. 34-95388 (July 29, 2022), 87 Fed. Reg. 49930 (Aug. 12, 2022).

[9] *See* Agency Information Collection Activities: Announcement of Board Approval Under Delegated Authority and Submission to OMB (Oct. 21, 2021), 86 Fed. Reg. 59716 (Oct. 28, 2021), *available at* https://www.govinfo.gov/content/pkg/FR-2021-10-28/pdf/2021-23432.pdf.

their trading activity currently is not fully captured by existing reporting requirements or information databases.[10]

We support efforts by FINRA to improve the quality and coverage of TRACE data on secondary transactions in Treasury securities. Most recently, FINRA filed a proposal in May with the SEC that would require that: (1) timestamps for most electronic transactions be reported at the finest increment captured by the execution system, and (2) transactions generally be reported as soon as practicable, but within no more than 60 minutes.[11] We appreciate the importance of high-quality data on transactions in Treasury securities to help regulators ensure the integrity of the Treasury market for all participants, including funds and other investors. We understand that this data is particularly important to regulators in times of market stress, as we saw recently in March 2020.

ICI members have a range of views regarding the benefits, risks, and considerations relevant to potential additional public transparency of secondary market transactions in Treasury securities. These views may be informed, among other things, by a firm's trading style, typical transaction

---

[10] For example, the Inter-Agency Working Group for Treasury Market Surveillance (IAWG) reported that, during the March 2020 volatility in the Treasury market:

> Foreign investors were significant net sellers of Treasury securities. More than half of the net sales were by foreign official institutions, such as central banks that sought to support local currencies. Additional sales came from private investors that needed dollars. Some foreign sales were reportedly motivated by precautionary desires to convert Treasury securities to cash before market functioning deteriorated further. Data on the extent of foreign selling became available to the public and parts of the official sector only with the passage of time. . . . .

Inter-Agency Working Group for Treasury Market Surveillance, Recent Disruptions and Potential Reforms in the U.S. Treasury Market: A Staff Progress Report (Nov. 8, 2021) at 9 ("IAWG Report"), *available at* https://home.treasury.gov/system/files/136/IAWG-Treasury-Report.pdf. *See also* Department of the Treasury, Frequently Asked Questions Regarding the TIC System and TIC Data, https://home.treasury.gov/data/treasury-international-capital-tic-system-home-page/frequently-asked-questions-regarding/ticfaq2#q3 (updated Nov. 16, 2012) (noting that US Treasury securities may trade in foreign financial markets and the Treasury International Capital reporting system accordingly does not capture all foreign transactions). To the extent that Treasury or other regulators may, in the future, consider ways to enhance reporting of Treasury transactions involving foreign institutions, we caution against an approach that would result in reporting obligations that apply to both counterparties to a transaction. Double-sided reporting would impose unnecessary operational burdens on buy-side participants and lead to reporting inconsistencies that would be difficult to reconcile. *See, e.g.*, ESMA, *EMIR and SFTR data quality report 2021* (Apr. 1, 2022), *available at* https://www.esma.europa.eu/sites/default/files/library/esma74-47-607_2021_emir_and_sftr_dq_report.pdf (highlighting the ongoing challenges of reconciling single sides of a derivatives transaction reported by both counterparties pursuant to EMIR requirements).

[11] *See Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change to Amend FINRA Rule 6730 to Enhance TRACE Reporting Obligations for U.S. Treasury Securities*, Securities Exchange Act Release No. 34-95003 (May 27, 2022), 87 Fed. Reg 33844 (June 3, 2022). The SEC has designated a longer period to review the proposed change. *See Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Designation of a Longer Period for Commission action on a Proposed Rule Change to Amend FINRA Rule 6730 to Enhance TRACE Reporting Obligations for U.S. Treasury Securities*, Securities Exchange Act Release No. 34-95270 (Jul. 13, 2022), 87 Fed. Reg. 43065 (July 19, 2022).

size, and investment strategy. As discussed further below, most ICI members believe that, while existing public transparency of Treasury market data is beneficial, additional considerations are relevant in determining whether further public transparency (and, if so, in what form) is beneficial to the Treasury market and its participants.

II. Benefits and Risks of Additional Public Transparency in the Treasury Market

Section 1 of the RFI asks a series of questions regarding the potential benefits and risks of additional transparency of Treasury market data. Generally, ICI members believe that public transparency of Treasury market data may benefit the market and investors, provided the transparency of the data is carefully calibrated, such that the risks do not outweigh the benefits. We discuss the potential benefits and risks for funds below.

In considering further public transparency of Treasury market transactions, we strongly agree with the official sector's underlying principle of "do[ing] no harm to the market."[12] Treasury acknowledges that it historically has taken an incremental approach to greater public transparency in the Treasury market. We strongly support Treasury's continued incremental approach to increased post-trade transparency in the Treasury market and its thoughtful consideration of the potential benefits and risks of public disclosure. Treasury's incremental approach to public transparency is also consistent with that of other regulators. For example, FINRA initiated post-trade public transparency of corporate bonds in 2002 and increased it in three phases over the 2002-2005 period. FINRA subsequently introduced public transparency in the structured product markets in 2012, starting with the most liquid segment of this market—TBAs—and gradually expanded transparency into less liquid securities. [13]

Potential benefits to funds from increased public transparency of data regarding transactions in the Treasury market include broadening access to more pricing data about Treasury transactions. This data may help funds more accurately assess trading conditions across the overall Treasury market, obtain better prices, enhance the ability to perform pre- and post-trade transaction cost analysis, and build forward-looking models to minimize transaction costs. ICI members report that Treasury data across the liquidity spectrum may be useful but, for the reasons detailed below, many members are concerned that public transparency of data regarding less liquid securities raises greater risks to funds and their investors, as well as to overall market liquidity.

Section 2 of the RFI asks how additional public transparency would improve Treasury market resilience and whether such additional transparency would have helped market resiliency during recent periods of market volatility. We caution Treasury that greater post-trade public transparency is not a panacea that would resolve all concerns about Treasury market structure. Rather, post-trade transparency is one tool that may help improve efficient market functioning.

---

[12] IAWG Report at 27.

[13] *See* Bessimbinder et al., *A Survey of the Microstructure of Fixed-Income Markets* (2020), *available at* https://cpb-us-w2.wpmucdn.com/people.smu.edu/dist/6/414/files/2020/07/A-Survey-of-the-Microstructure-of-Fixed-Income-Markets-2020.pdf.

Other tools that may be helpful in further strengthening the resiliency of the Treasury market include, among others, modifying the supplementary leverage ratio, considering the potential benefits of central clearing in the Treasury or repo markets, and promoting the expansion of "all-to-all" trading.[14]

Many ICI members are concerned that greater public post-trade transparency of transactions in the Treasury market also raises potential risks and may result in less, rather than more, liquidity in this important market, particularly for off-the-run and other thinly traded Treasury securities. Treasury itself acknowledges that some market participants "have expressed concerns regarding the effect of additional public transparency on the potential willingness and ability of intermediaries to engage in large institutional risk transfer in the Treasury securities market, in particular for off-the-run Treasury securities," which could "adversely affect market liquidity."[15] Public disclosure of transaction-level data about Treasury market transactions may, for example, increase the risks of front-running and other abusive trading practices that harm funds and their investors, especially when this increased transparency applies to the less liquid end of the Treasury market, such as off-the-run Treasury securities, for which ticket sizes and volumes typically are smaller. This concern is heightened in periods of market stress.[16]

Consistent with its historically incremental approach, we urge Treasury, before considering further post-trade transparency in the Treasury market, to first assess the results of FINRA's recent amendment to Rule 6750 to permit more frequent publication of aggregated Treasury data.[17] It is likely that, based on this rule amendment, FINRA will publish aggregated Treasury data more frequently than weekly—potentially as frequently as daily.[18] Treasury should wait an appropriate period of time after any more frequent publication of aggregated Treasury data by FINRA to assess its effect on the market and market participants, and then reassess after that whether further post-trade public transparency should be considered.

---

[14] *See, e.g.*, Eric Pan, *Liquidity strains in markets need structural fixes*, Financial Times, Opinion (July 5, 2022).

[15] RFI at 38261. We note that the Group of Thirty G30 Working Group on Treasury Market Liquidity also characterizes these concerns as "legitimate." Group of Thirty Working Group on Treasury Market Liquidity, *U.S. Treasury Markets: Steps Toward Increased Resilience* (July 2021), *available at* https://group30.org/publications/detail/4950.

[16] *See* Report of the COVID-19 Market Impact Working Group at 31.

[17] *See* Securities Exchange Act Release No. 34-95438, *supra* note 6.

[18] *Id.* at 4-5 ("FINRA represents it has received favorable feedback on the weekly aggregated trading volume data for U.S. Treasury Securities that is currently made available on its website and, in that, in consultation with the Treasury Department, FINRA now believes it would be appropriate to increase the frequency within which this aggregated data is made available.").

III. Considerations Regarding Additional Public Transparency and Market Liquidity

Section 3 of the RFI asks how liquidity should be defined and measured in the Treasury market. Liquidity is generally understood to mean that transactions can be effected with significant speed and minimal price impact. While liquidity ultimately is multifaceted, ICI members report that relevant metrics for measuring liquidity in the Treasury market may include, among others, trading volume, trading frequency, realized bid-ask spreads, quoted depth, trade sizes, turnover, price impact measures, distortions between yields, indicators of funding stress (*e.g.*, basis and swap spreads), and block trade frequency. We also emphasize that, in defining a liquid market for a particular type of Treasury security, Treasury should ensure that it relies on a robust set of data captured over a sufficient time period that accounts for changing market conditions.

IV. Potential Levels of Post-Trade Transparency

Section 4 of the RFI requests feedback on different potential levels of post-trade transparency in the Treasury market. ICI members support public dissemination of aggregated data about Treasury transactions.[19] Most ICI members have concerns, however, about public dissemination of transaction-level data about Treasury market transactions because such data risks publicly identifying large investors and may result in front-running and other predatory trading practices, as described above.[20] These concerns may be addressed if the data is subject to appropriately calibrated block thresholds, dissemination delays, and caps, which we discuss in Section V, below.[21] Members have the greatest concerns about public dissemination of transaction-level data regarding thinly traded Treasury securities, such as off-the-run securities, TIPS, STRIPS, and other Treasury securities at the less liquid end of the curve. Public dissemination of data about such securities raises a significant risk of harm to funds and their investors from front-running and other predatory trading practices. We strongly support phasing in any additional public transparency over time, as described above in Section II, above.

---

[19] We note, however, that disseminating aggregated data at a CUSIP level potentially may raise concerns with respect to off-the-run and other thinly traded Treasury securities. For example, in less liquid segments of the Treasury market, there may be very few transactions each day, such that end-of-day publication of data on an average and/or aggregate basis may not sufficiently mask participant identities. Daily publication of trade data in less liquid markets could adversely impact the ability of funds and other buy-side participants to exit positions and the willingness of a principal-based intermediary to facilitate risk transfer with its own balance sheet.

[20] We emphasize that regulatory reporting frameworks for other financial instruments—including equities, corporate bonds, structured products, municipal bonds, and swaps—do not include participant identification in publicly disseminated data. This concern still exists, however, with respect to dissemination of transaction-level data even with anonymized participant identification and a significant lag, due to the risks of identification, especially for large transactions in the market. *See* RFI at Question 4.5. A lag in dissemination may not be sufficient where a trading strategy is implemented over weeks, or even months, and could be revealed through transaction-level disclosure. The risk of identification is greater the more granular is the data required to be reported, and the less liquid the security (*e.g.*, off-the-run Treasury securities).

[21] For example, some Treasury securities are traded so infrequently that the appropriate block threshold may be zero.

V. Block Trades and Reporting Cap Sizes

Section 5 of the RFI asks, among other things, how volume data could be adjusted for large trade sizes if data were publicly disseminated[22] and how, if at all, additional public transparency should vary based on (a) security type (*i.e.*, fixed-rate nominal coupons, bills, FRNs, TIPS, and STRIPS), (b) on-the-run or off-the-run status, (c) maturity, or (d) other security characteristics including, but not limited to, average trading volumes or trade size.[23] As discussed above, we recognize that public transaction-level transparency may offer certain benefits to the Treasury market but most ICI members believe that this transparency must be carefully balanced against the risk of it reducing liquidity and impairing overall market quality. We explain below our recommendations for striking an appropriate balance.

Most ICI members strongly believe that, to protect liquidity in this critical market, Treasury should incorporate block trade thresholds and a dissemination delay, as well as reporting cap sizes, into any framework for public dissemination of transaction-level Treasury data. Given the differing levels of liquidity across categories of Treasury securities, we urge Treasury to not adopt a "one size fits all" approach—rather, it should aim to devise lower block trade thresholds and longer dissemination delays for less liquid securities. In doing so, we urge Treasury to balance the perceived benefits of disclosure against the potential for an inappropriately high block trade threshold, an insufficient delay in dissemination, or too granular of a cap size, to harm market liquidity itself. To avoid such harms, we suggest that Treasury consider a conservative approach that initially sets block trade thresholds low with lower cap sizes, allows for an assessment of the effects on the market and market participants, and then enables adjustments to the thresholds or cap sizes as necessary with input from market participants.

A. Background

In certain circumstances, public post-trade transparency may inhibit market participants' willingness to transact. To address the inherent tension between transparency and market liquidity, mechanisms such as dissemination delays for block trades and cap sizes enable funds, on behalf of their investors, to transact large dollar volumes of Treasury securities with minimal price impact in the market. The ability to transact in large sizes in a discreet manner is critical to funds obtaining desired exposure on fair terms in a reasonable period of time.

Funds and their investors, as well as the Treasury markets generally, may be negatively affected by premature disclosure of transaction data about a block trade or the disclosure, in the absence of caps, of the exact volume of a large-sized trade. Disclosing block trade data too quickly may result in severe and unwarranted price movements. Such disclosure also could enable other market participants to piece together information about a fund's holdings or trading strategy and lead to front running of a fund's trades, harming the ability of liquidity providers to hedge or lay

---

[22] *See* RFI at Question 5.1. We note that the recent G-30 report also recognized the potential role of caps in addressing risks raised by publicly reporting large size trades. *See supra* note 7.

[23] *See* RFI at Question 5.3.

off those exposures efficiently. This would adversely impact the price of these trades and reduce market liquidity to the detriment of fund investors.

B. Establishing Appropriate Block Trade Thresholds and Dissemination Delays

In the event Treasury further considers the merits of public dissemination of transaction-level data regarding Treasury securities, it should utilize the data it has received from regulatory reporting of Treasury securities to propose block thresholds and dissemination delays that are calibrated to preserve liquidity in all parts of this market.[24] We believe the reporting protocols for block trades must include two elements to ensure public dissemination of these trades does not harm the market. First, Treasury should set the minimum size of a block trade in a manner that accounts for the liquidity profile of the traded security. To that end, we expect that on-the-run securities could support higher block thresholds than off-the-run securities. Similarly, certain categories of Treasury securities that have unique market liquidity profiles, such as FRNs, TIPS, and STRIPS, as well as certain longer-dated Treasury securities, should be subject to lower block thresholds. Second, Treasury should withhold the details of qualifying block trades from public dissemination for a sufficient period of time to permit market participants to hedge their exposure and prevent price distortions in the market. Treasury should incorporate into any public reporting regime a mechanism or process that ensures input from all market participants, including funds. This process should incorporate periodic review and re-evaluation of whether changes to the public reporting regime are necessary or appropriate, including potential changes to block trade thresholds, dissemination delays, and caps, based on subsequent market data and events.

More specifically, Treasury should establish block thresholds that are tailored to the liquidity characteristics of the particular security being traded rather than trying to use a one-size-fits-all threshold. While the Treasury market is often referred to as "the deepest and most liquid market in the world,"[25] the market for on-the-run issues of Treasury securities exhibits significantly more liquidity than the market for their off-the-run counterparts. In general, markets with greater liquidity can support higher block thresholds than less liquid markets, but a large enough trade would distort prices in even the most liquid markets. Conversely, some markets may have such sparse liquidity that prompt dissemination of a trade of any size could impair liquidity (*i.e.*, a transaction of any size in that security should be subject to a reporting delay).

Treasury also should ensure that all data regarding block trades is delayed from public dissemination for a sufficient time to allow the counterparty to a block trade to hedge its position. Failing to provide an adequate dissemination delay for block transactions would impair

---

[24] We emphasize that appropriate time delays for public dissemination of Treasury data should start from the time at which such data is reported to TRACE and not the time at which the transaction was executed. Currently, FINRA rules generally require members to report transactions on the same day during TRACE system hours. FINRA Rule 6730(a)(4)(A). However, FINRA recently submitted to the SEC a proposed rule change that would, among things, reduce that reporting timeframe to generally require reporting to TRACE as soon as practicable but no later than 60 minutes from time of execution. *See supra* note 11.

[25] RFI at 38260.

liquidity in the Treasury cash market to the detriment of funds and their investors. Consistent with our views on block trade thresholds, we believe Treasury should carefully analyze market data to determine an appropriate dissemination delay for block trades, which may be significant for older, off-the-run Treasury securities or other Treasury securities that trade infrequently and therefore may be inherently difficult to hedge.

C. Establishing Caps for Large Volume Trades

The RFI asks whether "large volumes [should be] capped if provided at a transaction level as is done for transparency of certain other fixed-income securities."[26] We strongly support applying cap sizes to all transaction-level data regarding large-sized trades. Caps are a critical component of any increased public transparency in the Treasury market, although caps alone are likely insufficient to address concerns about the effect of public dissemination of transaction-level data on market liquidity and quality. Rather, similar to other regulatory reporting frameworks (*e.g.*, the CFTC's swaps reporting regime), cap sizes should be considered as one mechanism for protecting market participants and should be utilized in tandem with block trade thresholds and dissemination delays. As we recommend above for block trade thresholds and dissemination delays, it is critical that Treasury propose cap sizes based on the market data it has received and tailor cap sizes to the liquidity profile of different Treasury securities.

VI. Late Transactions and Revisions

Section 7 of the RFI asks how late transactions and revisions should be addressed in the publicly disseminated data and to what extent the volume of late transactions and revisions should influence dissemination timing. Data accuracy is important, both to the usefulness of data that is provided through regulatory reporting and data that is disseminated publicly. Thus, to the extent Treasury increases the frequency or amount of Treasury market data that is disseminated publicly, we support measures that seek to ensure this data is accurate, including delaying dissemination timing to provide an opportunity to correct erroneous data before it is disseminated.

* * *

[26] RFI at Question 5.1. As noted above, the recent G-30 report also suggests caps for large volume trades. *See supra* note 7.

We appreciate the opportunity to provide input on Treasury's RFI regarding additional post-trade transparency for secondary market transactions in Treasury securities. Please let us know if we and our members may be of assistance. We would be glad to discuss our comments with you or answer any questions you may have. You may contact me at (202) 326-5835 or Nhan Nguyen at (202) 326-5810.

Sincerely,

/s/ Sarah A. Bessin

Sarah A. Bessin
Associate General Counsel

cc: Mr. Fred Pietrangeli, Director
Office of Debt Management
Office of the Assistant Secretary for Financial Markets

Haoxiang Zhu, Director
Division of Trading and Markets
US Securities and Exchange Commission

Stephanie Dumont, Executive Vice President, Market Regulation and Transparency Services
Racquel Russell, Senior Vice President and Director of Capital Markets, Office of General Counsel
Ola Persson, Senior Vice President, Transparency Services
Chris Stone, Vice President, Transparency Services
Joseph Schwetz, Senior Director, Market Regulation
Patrick Geraghty, Vice President, Market Regulation
FINRA