Via Federal eRulemaking Portal

April 22, 2016

Mr. David R. Pearl
Office of the Executive Secretary
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Re: Notice Seeking Public Comment on the Evolution of the Treasury Market Structure [Docket No. TREAS–DO–2015–0013]

Dear Mr. Pearl:

The Asset Management Group ("**AMG**") of the Securities Industry and Financial Markets Association ("**SIFMA**")[1] appreciates the opportunity to provide comments to the Department of the Treasury ("**Treasury Department**") on the notice seeking public comment on the evolution of the Treasury market structure.[2]

As fiduciaries to millions of investors and clients, including a significant portion of the nation's pension plans, AMG's members are committed to using cost-effective risk management practices, including US Treasury futures and cash markets. AMG supports the Treasury Department's efforts to "seek[] input on potential improvements in Treasury market policies, practices, and conduct" and "further enhance" the Treasury Department's "understanding of the changes underway in the Treasury market."[3]

The following comments address: (i) how asset managers access and use the US Treasury market; (ii) regulatory requirements for US Treasury market cash trading venues (Part II of the RFI); (iii) official sector access to US Treasury market data (Part III of the RFI); and (iv) public access to US Treasury market data (Part IV of the RFI).

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[1] SIFMA AMG's members represent U.S. asset management firms whose combined global assets under management exceed $34 trillion. The clients of SIFMA AMG member firms include, among others, tens of millions of individual investors, registered investment companies, endowments, public and private pension funds, UCITS, and private funds such as hedge funds and private equity funds.

[2] *See* Notice Seeking Public Comment on the Evolution of the Treasury Market Structure, 81 Fed. Reg. 3,928 (Jan. 22, 2016), *available at* https://www.treasury.gov/press-center/press-releases/Documents/Market%20Structure%20RFI%20Final.pdf (the "**RFI**").

[3] RFI at 3,929.

I. ROLE OF ASSET MANAGERS IN FINANCIAL MARKETS; HOW ASSET MANAGERS ACCESS AND USE THE US TREASURY MARKET

Asset managers rely on access to the US Treasury cash market as a highly-liquid, stable source of reliable investment securities. The RFI accurately describes it as "a significant investment instrument and hedging vehicle for global investors, [and] a risk-free benchmark for other financial instruments"[4] US Treasury securities are vital to any asset manager's comprehensive strategy and portfolio maintenance to obtain a desired exposure, hedge risk, diversify portfolio holdings, and protect capital.

Funds generally transact in US Treasury securities with a "buy and hold" strategy, though the liquid nature of this market does not restrict activity to this one approach. Asset managers access the Treasury market through a wide array of venues, including dealer-to-client bilateral portals and multi-to-multi electronic trading platforms. Each offers unique characteristics that may be more appropriate for different purposes, market conditions and investment strategies.

II. US TREASURY MARKET CASH TRADING VENUES SHOULD BE SUBJECT TO REGISTRATION AND CERTAIN UNIFORM REGULATORY OBLIGATIONS TO SUPPORT THE HEALTH OF THE US TREASURY MARKET.

Part II of the RFI focuses on continued monitoring of trading and risk management practices across the US Treasury Market and the current regulatory requirements applicable to the government securities market and its participants. Asset managers generally transact in the Treasury market in one of two ways: directly with a counterparty through bilateral negotiations or through a trading venue with multiple participants. AMG supports the Treasury Department's position that "[r]isk controls at firms and trading venues must be able to monitor order and trade activity at the increased speeds made possible by [] automation" and generally agrees that "many trading platforms and firms have updated their risk management practices to better align them with a faster and more complex trading environment."[5]

Trading platforms should be required to demonstrate adequate risk management, order and trade monitoring, and associated capabilities. This could be accomplished, for example, by subjecting these venues to Securities and Exchange Commission ("**SEC**") rules for alternative trading systems, even if they only facilitate the trading of government securities.[6]

The need for regulatory certainty is particularly acute due to potential risks associated with increased automation, speed, and order complexity. AMG believes that setting a minimum regulatory threshold would establish some uniformity across trading venues and, at the

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[4] RFI at 3,928.

[5] *Id.* at 3,930.

[6] *See* Regulation of Exchanges and Alternative Trading Systems, 17 C.F.R. Part 242.300-242.303.

same time, would prevent a "race to the bottom" on core functions necessary to foster liquidity and facilitate US Treasury cash market activity. Through appropriate registration and/or regulation, adequate oversight will ensure that cash trading venues are able to address any risks to well-functioning markets and ensure appropriate market integrity.

As the RFI notes, "[t]here are differences in the current regulatory requirements applicable to the government securities market as compared to other US securities, commodities and derivatives markets."[7] For example, "Treasury futures are required by law to be traded on a registered exchange" and "are centrally cleared at [Chicago Mercantile Exchange's] clearinghouse."[8] AMG believes that, like other highly liquid, frequently traded instruments, cash Treasuries should be able to be traded bilaterally or on regulated trading venues subject to minimum regulatory burdens that ensure adequate standards are met and that the venues can provide sufficient resiliency and transparency to serve the marketplace.

Lastly, the RFI notes the "growing presence of principal trading firms"[9] ("**PTFs**"). AMG believes that financial regulators should consider a careful evaluation of the role of PTFs and any possible risks posed by the activities of PTFs (including potentially significant basis risk), particularly compared to those risks posed by traditional broker-dealer market makers. Consideration may include, among other things, an analysis of whether, given the even larger role PTFs play in the interdealer market, PTFs should be subject to similar assessments as those imposed on primary dealers.

III. AMG SUPPORTS OFFICIAL SECTOR REPORTING OF US TREASURY CASH SECURITIES MARKET ACTIVITY.

AMG believes that regulators should enjoy "comprehensive official sector access to data, particularly with respect to U.S. Treasury cash market activity"[10] for systemic risk oversight and mitigation purposes.

The Treasury Department should seek the "most efficient and effective way to collect, aggregate, and appropriately monitor U.S. Treasury cash and futures markets data."[11] To that end, AMG supports the Treasury Department's interest in relying, to the extent possible, on existing official sector reporting infrastructure. Establishing a global framework for reporting US Treasury cash securities market information should leverage existing architectures relied upon by market participants for asset classes. Of all of the existing regulatory reporting infrastructures, AMG members generally believe FINRA TRACE model may work well for regulatory reporting of US Treasury securities transactions. Of course, the successful implementation of a FINRA TRACE-like model for US Treasury cash securities would still require a significant amount of time and resources.

[7] RFI at 3,930, FN 11.

[8] *Id.* at 3,928.

[9] *Id.*

[10] *Id.* at 3,931.

[11] *Id.*

However, as the Treasury Department notes, mandating, establishing, and implementing an official sector reporting regime requires coordination across markets and jurisdictions, as well as a careful consideration of the time and resources required to complete such a momentous undertaking. Significant time will be needed for market participants to design, test, and implement a US Treasury cash market reporting regime. Furthermore, the reporting, receipt, warehousing, and maintenance of US Treasury cash market information should be performed in a way that mitigates any cyber or data security risks. Given the importance and value of the information, steps should be taken to ensure security and protection from threats.

The Treasury Department should also benefit from the experience implementing a swap reporting regime, from a regulatory perspective as well as from a market participant perspective.

First, a phased, multi-step implementation approach worked well for swap market participants and similar considerations should apply to the US Treasury cash market. While the US Treasury market is an institutional market, less sophisticated market participants may require additional time to allocate the appropriate resources for trade reporting.

Second, reporting obligations should be "one-sided," meaning that one entity should clearly possess the reporting responsibility pursuant to a designated waterfall of entities. For example, trading venues should primarily perform the reporting function, as opposed to "dual reporting," where both counterparties are obligated to report transaction information. The "one-sided" approach is more operationally efficient and reduces the risk of trade reporting errors.

Finally, steps should be taken "to consider transmission protocols, data standards, and identifiers to facilitate data integration." In order for information to be readily receivable, aggregated, and analyzed, data reporting should be subject to one baseline standard for all market participants. Reportable fields should be clearly identified, the trade information reporting formats should be uniform, and these standards should be consistent for all trading venues, market participants, and jurisdictions.

IV. FINANCIAL REGULATORS SHOULD INITIALLY PRIORITIZE OFFICIAL SECTOR REPORTING. PUBLIC REPORTING SHOULD THEN ONLY PROCEED AFTER CAREFUL STUDY OF COMPREHENSIVE US CASH TREASURY MARKET INFORMATION AND ARTICULATION OF THE PUBLIC POLICY GOALS TO BE ACHIEVED BY PUBLIC REPORTING.

After careful analysis of official sector data, AMG urges the Treasury Department and relevant financial regulatory agencies to clearly articulate the goals of any public reporting framework, including specific data elements and the details related to how the process will function, as well as how the proposed reporting framework will achieve the identified goals. This process will help to ensure that any public reporting framework achieves its intended goals and does not have negative unintended consequences for asset managers who regularly transact in and rely on the US Treasury cash market. AMG members believe that this approach will ensure that publication of market information is done in a way that protects liquidity and encourages increased market activity.

In the future, infrastructure for public data dissemination, if appropriate, should leverage existing frameworks for other financial markets. The Treasury Department should not pursue a new approach when existing solutions already operate and have the necessary technology and connectivity to meet the objectives of the RFI. At this time, given the prematurity of any discussion, AMG declines to offer its views on the preferred model for public data reporting.

Furthermore, similar to comments related to official sector reporting, AMG has concerns about the need for coordination and harmonization of public reporting rules across markets and jurisdictions. Public transparency should be a global initiative, with reporting requirements implemented across jurisdictions and in a coordinated manner.

Should financial regulators proceed with public reporting, specific measures should be taken to address the dissemination of large transaction (or "block trade") information. In other markets, the public dissemination of this information is done on a delayed or masked basis. Implementation of FINRA's TRACE, as well as the CFTC's block trade are illustrative, both in their phased implementation, determination of appropriate threshold trade size amounts, delayed dissemination, and protection of identifying features of individual transactions. AMG encourages the Treasury Department to pursue a similar approach for US Treasury cash market activity and looks forward, at the appropriate time, to discussing the proper framework for a block trade dissemination regime in the future.

Regardless of the approach, block trade allocations should not be reported to the public because of the significant resources needed to complete such a task and the minimal benefit the publication of that information might provide.

Further, with respect to less liquid securities, such as off-the-run Treasuries, particularly for block trades, AMG urges the Treasury Department to take special precautions to prevent liquidity reduction. First, increased transparency for off-the-run Treasuries through public reporting will not likely lead to new market participants because of the relatively illiquid nature of the product. Second, for these less liquid securities, real-time (or nearly real-time) post-trade reporting will likely reduce dealers' willingness to transact, reducing competition and making prices less competitive. While AMG does not offer specific comment on an appropriate delay today, a sufficient amount of time will be necessary so that market makers can appropriately hedge and offset large positions. This protection will help facilitate the necessary liquidity to meet asset managers' needs, particularly during times of market volatility.

V. CONCLUSION

We appreciate the opportunity to comment on the RFI and would be happy to meet with Treasury Department staff to discuss our positions in greater detail. Should you have any questions, please feel free to contact either of the undersigned.

Sincerely yours,

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