August 26, 2022

Via email to: govsecreg@fiscal.treasury.gov

Brian Smith
Deputy Assistant Secretary for Federal Finance
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

RE: **Request for Public Comment on Additional Transparency for Secondary Market Transactions of Treasury Securities: Docket No. TREAS-DO-2022-0012**

Dear Deputy Assistant Secretary Smith:

The Securities Industry and Financial Markets Association (SIFMA), SIFMA's Asset Management Group (SIFMA AMG), the American Bankers Association Securities Association (ABASA) and the Institute of International Bankers (IIB, collectively, with SIFMA, SIFMA AMG and ABASA, "the Associations"[1]) appreciate the opportunity to respond to the U.S. Department of the Treasury's (Treasury) recent request for information (RFI) on additional transparency in the market for Treasury securities.[2] We believe that Treasury's publication of the RFI is an important step in gathering the information and input necessary to assess the benefits and risks to different segments of the market of additional post-trade transparency. We look forward to continuing to engage with Treasury and other policy makers on potential structural reforms in the market for U.S. Treasury securities that would contribute to increased resiliency and capacity in this important market.

Executive Summary

The Associations support the broad policy objective of enhancing the resiliency and capacity of the Treasury market through carefully calibrated reforms that encourage market participation from a

[1] *See* Appendix A for a description of the Associations.

[2] 87 Fed. Reg. 38259 (June 27, 2022).

diverse group.[3] Moreover, the Associations are broadly supportive of additional *non-public* data disclosures to the official sector that would support their market monitoring, policymaking, and supervisory functions. However, the benefits of additional public disclosure are less clear, while the potential downsides of such disclosure—to intermediaries and investors—are significant.

Specifically, additional inappropriately calibrated public disclosures present significant risks to the Treasury's goal of financing the U.S. debt at the lowest cost to taxpayers over time, the ability of primary dealers to effectively serve their important underwriting and market making function, and the ability of end-users and investors to execute large transactions. As explained below, inappropriately calibrated public disclosure could threaten the ability of primary dealers to hedge their market making positions, and thus their ability to take larger positions in Treasury securities to facilitate customer transactions and provide liquidity to all aspects of the Treasury market.

Correspondingly, larger positions are often transacted by institutional investors. Public disclosure could impede the ability of these end-users to mitigate the adverse pricing impact that would result from such disclosure, which would further dampen liquidity. These consequences could significantly affect broader investment strategies of end-users and other investors, and the way in which investment services are provided to retail investors, as Treasury securities may be used to hedge risk as part of a diversification strategy or as a liquid cash equivalent or relatively liquid asset. If the ability to use Treasury securities in these ways is limited due to the negative consequences of public disclosure (particularly if block sizes or time delays are inappropriately calibrated), then investors may face relatively greater expenses and volatility in their overall investment portfolios.

These risks of public disclosure are most pronounced for off-the-run Treasury securities and other less-liquid segments of the market, where liquidity providers often need to warehouse risk for a significant period of time (ranging from several days to weeks and sometimes even months). Threatening this ability to efficiently carry risk would lead to compromised secondary market making, which would reduce—rather than enhance—overall market liquidity and have detrimental effects on the ability of investors to manage large positions. Moreover, each market segment has a unique set of characteristics, including types of market participants, trading strategies, depth, volumes, execution methods and liquidity. Requiring public disclosure of trade data too quickly and/or at too granular a level in these market segments could hamper the ability of market participants to trade large, concentrated positions, thus reducing market liquidity for all investors.

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[3] Indeed, SIFMA has long supported review and recalibration of prudential rules—most notably wholly or partially risk insensitive size-based constraints, such as the Supplementary Leverage Ratio (SLR) and Global Systemically Important Bank (GSIB) surcharge—as the best way to allow dealers to continue to provide liquidity during all stages of a market cycle. *See, e.g.*, letter from SIFMA to three Federal Reserve Board governors (Feb. 23, 2021), *available at* https://www.sifma.org/wp-content/uploads/2021/02/SLR-Exemption-Extension-Letter-02.23.2021.pdf; letter from SIFMA to Federal Reserve Board (Apr. 2, 2015), *available at* https://www.sifma.org/wp-content/uploads/2017/05/sifma-the-clearing-house-and-fsr-submit-comments-to-the-federal-reserve-on-the-gsib-surcharge-for-gsibs-headquartered-in-the-us-1.pdf.

Therefore, the Associations propose that the following core considerations be taken into account prior to implementing additional public transparency in the Treasury securities market:

- Decisions regarding additional public disclosure should be made on a market-segment-by-market-segment basis after weighing the potential negative effects (*e.g.*, reduction in market liquidity) against any clearly articulated benefits of such disclosure for the particular market segment.
- Any public disclosure of trade data ought to be subject to block reporting caps to avoid disincentivizing market participation and these caps should be calibrated and balanced with appropriate reporting and dissemination delays.
- Less liquid segments of the market likely require significant additional study to determine if post-trade transparency is beneficial.
- Any additional post-trade transparency should not only be calibrated appropriately to the specific market segment but also phased-in gradually, including through the use of pilot programs, to help ensure that any negative effects are identified and addressed in a timely fashion.[4]
- More robust public disclosures will generally be least harmful in more liquid on-the-run market segments than in less liquid segments.
- Any public disclosure requirements should not be pursued until there is increased clarity on the broader range of reforms to the Treasury market, such as: the universe of firms that may be required to register as government securities dealers (which also should be subject to transparency requirements);[5] whether and to what extent there is a central clearing requirement;[6] and any new minimum haircuts on repo transactions.[7] It is important to analyze how such reforms will interact with each other.

Introduction

Some policymakers and market commenters have asserted that additional post-trade public disclosure of Treasury securities transactions may be a way to "enhance liquidity by fostering a greater

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[4] *See, e.g.,* Association for Financial Markets in Europe (AFME) and Finbourne, "MiFIR 2021 Corporate Bond Trade Data Analysis and Risk Offset Impact Quantification," (Apr. 2022), *available at* https://www.afme.eu/Portals/0/DispatchFeaturedImages/MiFIR2022.pdf. This study looks at the European corporate bond market to determine the different time frames for trading-out of a position from a risk perspective.

[5] 87 Fed. Reg. 23504 (Apr. 18,2022).

[6] *E.g.*, 87 Fed. Reg. 23504 (Apr. 18,2022); Remarks by Under Secretary for Domestic Finance Nellie Liang at King's College London's Global Banking and Finance Conference (July 5, 2022), *available at* https://home.treasury.gov/news/press-releases/jy0850.

[7] *Id.*

understanding of market activity across market segments".[8] As we will discuss below, we are not aware of the evidence for this assertion. It is not clear, for example, whether such disclosure would have addressed prior Treasury market disruptions or which market participants would have benefited from additional public disclosure.

Moreover, although certain segments of the Treasury market may be unaffected by additional public disclosure, other segments—with different liquidity and market participant profiles—need to be handled with greater care to avoid negatively affecting the investors and liquidity in those segments. The importance of these distinctions, and the different potential outcomes, should be significant factors in any decision to mandate additional public transparency.

The Associations have long supported measures that would ensure that the official sector has the post-trade transaction-level data it needs to enable it to identify and remediate potential vulnerabilities earlier and allow it to set policy more effectively over the longer term. Since first beginning the collection of this data in 2017, continued efforts to enhance the collection of data and to fill gaps in reporting have improved the ability of regulators to oversee the market.

However, with respect to *public* reporting of transaction-level information, as the Inter-Agency Working Group for Treasury Market Surveillance (IAWG) noted in its most recent report (2021 IAWG Staff Progress Report), increased public transparency should, in the first instance, "do no harm to the market" and ought to be "designed to avoid creating disincentives for providing liquidity".[9] The challenge, as the IAWG notes is that publicly releasing volume and price information too quickly or with too much detail (especially with respect to trade size) may hamper the ability of dealers and end-users to trade large, concentrated positions, which are particularly important for less liquid segments of the market, such as off-the-run securities.

In this way, inappropriately calibrated enhancements to public transparency could have the unintended effect of reducing liquidity resiliency and market integrity in key segments of the market and therefore undermine a key objective of the broader Treasury market reform effort (*i.e.,* to increase liquidity resiliency). Thus, before any additional public disclosure is required, the benefits and risks of

[8] U.S. Department of Treasury, "Quarterly Refunding Statement of Deputy Assistant Secretary for Federal Finance Brian Smith" (May 4, 2022), *available at* https://home.treasury.gov/news/press-releases/jy0762 (hereinafter "Quarterly Refunding Statement").

[9] Inter-Agency Working Group for Treasury Market Surveillance, *Recent Disruptions and Potential Reforms in the U.S. Treasury Market: A Staff Progress Report*, pp. 22, 27, *available at* https://home.treasury.gov/system/files/136/IAWG-Treasury-Report.pdf. *See also* Quarterly Refunding Statement.

the additional disclosure with respect to the particular market segment(s) affected should be carefully analyzed.

Background on the importance of the Treasury market and its current structure[10]

The U.S. Treasury market remains the deepest and most liquid securities market in the world. It serves several important functions, including as the most important global benchmark for pricing and hedging a broad range of asset classes and as a key transmission mechanism for U.S. monetary policy. The Treasury market's depth and broad liquidity allow the U.S. federal government to achieve its goal of minimizing cost to the taxpayer by financing the national debt at the lowest cost over time. Treasury's ability to borrow to finance the federal government's debt is built around a unique, principal-based market structure, one that is not easily (or appropriately) comparable with more traditional agency (*e.g.*, equities) markets. The fundamental starting point of this market rests in the Treasury auction process.[11]

Treasury's auction process promotes broad, competitive bidding, which reduces costs over time to U.S. taxpayers. Primary dealers—banks and broker-dealers that have been approved to trade in U.S. Treasuries with the Federal Reserve Bank of New York (New York Fed)—have traditionally constituted the largest group of buyers in such auctions (bidding on behalf of their own accounts or on behalf of identified customers). Other direct auction bidders include investment funds, pensions and retirement funds, insurance companies, foreign accounts and others. Primary dealers are, however, the only market participants who are obligated to participate in all auctions of U.S. government debt, with all bids to be made (at a minimum), for an amount of securities representing their *pro rata* share of the offered amount. The New York Fed further expects primary dealers to operate in accordance with best practices designed to, among other things, promote a transparent, liquid and efficient market for Treasury securities.[12] The obligation of primary dealers to support market liquidity extends not only to on-the-run securities, but also to less liquid off-the-run securities. Federal Reserve officials have said

[10] Parts of this section are drawn from the SIFMA/ABA letter to Treasury (Apr. 22, 2016) (SIFMA 2016 Letter), *available at* https://www.sifma.org/wp-content/uploads/2017/05/sifma-submits-comments-to-the-treasury-in-response-to-rfi.pdf.
[11] *See* Federal Reserve Bank of New York, Treasury Debt Auctions and Buybacks as Fiscal Agent, *available at* https://www.newyorkfed.org/markets/treasury-debt-auctions-and-buybacks-as-fiscal-agent.
[12] Treasury Market Practices Group, Best Practices for Treasury, Agency Debt, and Agency Mortgage-Backed Securities Markets (July 2019), *available at* https://www.newyorkfed.org/medialibrary/Microsites/tmpg/files/TMPG_BestPractices_071119.pdf.

that "for decades, the primary dealers have played a critical role not only in open market operations, but also in the underwriting and distribution of newly issued Treasury securities."[13]

Dealers' ability to facilitate client activity could be compromised----particularly when dealing with large positions---by public dissemination requirements that fail to consider the extended transaction periods for large positions. Some large sales may take days or weeks to execute in full and dissemination of information for each or any portion may move the market against the position. Large buy-side/end-users could be particularly negatively impacted if a near-real-time regime were implemented as it would make it difficult to manage large positions over time due to the adverse pricing impact that may result from public reporting, therefore reducing the attractiveness of Treasury securities, and ultimately dampening overall liquidity in the market.

End-users of Treasury securities likewise could be affected, as Treasury securities provide a variety of important functions (e.g., hedging risk, diversification, capital protection, liquidity). Thus, reducing liquidity in the Treasury markets could significantly impair the ability of end-users to manage their investments and their provision of services to retail investors. For example, retail investors could face increased expenses and greater volatility in their investment portfolios as an indirect consequence of inappropriately calibrated public disclosure requirements.

Therefore, any reforms to Treasury market structure should consider the important and unique roles of primary dealers and other market participants and how their activity may be impacted by changes. It is important to continue to incentivize intermediation from a wide breadth of market making firms and it is important to ensure that the need of large end investors for liquidity and positioning anonymity is not lost in any reforms. Reforms should also not result in increasing the risk of reverse engineering of strategies and holdings.

The Attributes of Specific Market Segments Should Be Considered

To appropriately calibrate potential improvements in market structure and dissemination of transaction data, the variability of products within the Treasury market should be recognized. Failure to account for distinctions in market characteristics in any public disclosure requirements would negatively affect the incentives of liquidity providers to take risk and provide price improvement in certain market segments. Each segment varies by types of market participants, trading strategies,

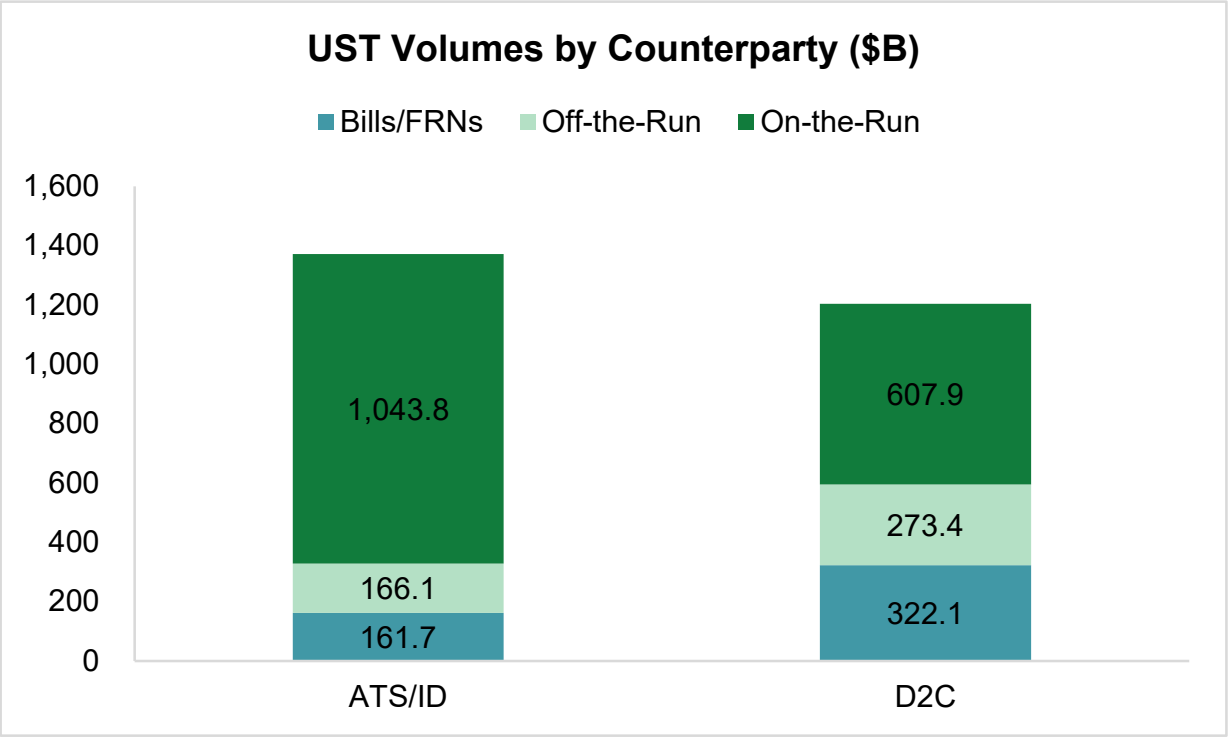
[13] Simon Potter, Remarks at the 2015 Roundtable on Treasury Markets and Debt Management (Nov. 19, 2015), *available at* https://www.bis.org/review/r151123d.pdf.

depth, volumes, execution methods and liquidity. Policymakers need to consider all these factors for each market segment in order to calibrate public dissemination requirements that "do no harm" to the liquidity and resiliency of the Treasury market.

There are a number of ways to break down the market into segments, with the most obvious distinction being between the on-the-run securities and all others. Other segments that may be considered separately include STRIPS, TIPS and floating rate notes. The on-the-run sector generally enjoys deep liquidity, breadth and significant transparency already. Off-the-runs (and the other categories including STRIPS, TIPS and floating rate notes) display much less liquidity. Liquidity and depth decrease substantially as securities move into the oldest off-the run categories. The lower levels of liquidity and turnover in the older off-the-run segments implies that liquidity providers often need to warehouse risk for several days, effectively lengthening the duration of a transaction.

The chart below (based on Financial Industry Regulatory Authority (FINRA) data) shows the overwhelming disparity in volumes for on-the-run and off-the-run securities. The disparity in this liquidity metric is even more significant on a per-security basis as there are far fewer individual CUSIPs in the on-the-run than the off-the-run sectors. Thus, the volume for off-the-runs is spread over a far greater number of securities. We estimate from publicly available sources[14] that there were seven on-the-run CUSIPS in the nominal coupon space and approximately 318 off-the-run CUSIPS. Applying these numbers to the volumes in the chart below, on-the-run CUSIPS have an average weekly volume of $235 billion per on-the-run CUSIP versus $1.38 billion per off-the-run CUSIP.

[14] Source: Bloomberg.



Source: FINRA TRACE, SIFMA estimates

NOTE: Week of 7/22/22. ATS = alternative trading system, ID = interdealer, D2C = dealer to customer. Nominal coupons and TIPS separated into remaining years-to-maturity to include current on-the-runs. Strips included in nominal coupons off-the-run volume.

The chart below illustrates the recent trend showing a reduction in the overall portion of daily volumes attributable to off-the-run Treasury securities: during 2018, off-the-run volume made up 25.8% of the volume traded, while in the current year, off-the-run securities made up 23.4% of the volume. Note too, that aggregate daily volumes of off-the-run have decreased by 7.8% from 2018 to the current year, while on-the-run activity increased by 4.9%.

UST ADV: On/Off-the Run Status & Security Type across Venues

	Coupons		TIPS		Total			
	D2D	D2C	D2D	D2C	D2D	D2C	Total	% Total
On-the-Run								
2018	289.1	131.8	3.7	6.2	292.8	137.9	430.7	74.2%
2019	259.1	127.0	3.2	4.8	262.3	131.8	394.1	73.7%
2020	216.6	125.9	3.7	4.5	220.3	130.4	350.7	72.2%
2021	238.5	154.0	4.0	5.5	242.4	159.5	401.9	74.7%
YTD	280.3	162.9	3.6	5.2	283.8	168.1	451.9	76.6%
Off-the-Run								
2018	43.5	95.9	2.0	8.4	45.5	104.3	149.8	25.8%
2019	44.8	87.5	1.5	6.5	46.2	94.0	140.3	26.3%
2020	39.5	88.6	1.2	5.9	40.7	94.5	135.2	27.8%
2021	41.5	88.2	1.3	5.3	42.9	93.6	136.4	25.3%
YTD	43.2	88.0	1.3	5.5	44.5	93.5	137.9	23.4%

Source: FINRA TRACE, SIFMA estimates

Note: ADV = average daily trading value. 2018 = week of 12/31; YTD = as of week of 7/18/22. Bills = maturities <1 year; FRN = floating rate note; TIPS = Treasury inflation-protected securities. D2D = dealer to dealer, includes alternative trading systems and interdealer brokers; D2C = dealer to customer

The chart immediately below illustrates the different volumes attributed to other segments of the market.

UST ADV: Security Type across Venues

	Bills		FRNs		Coupons		TIPS		Total		
	D2D	D2C	D2D	D2C	D2D	D2C	D2D	D2C	D2D	D2C	Total
2018	27.6	82.2	0.5	1.4	332.6	227.7	5.7	14.6	366.4	325.8	692.2
2019	26.7	63.8	0.3	2.0	303.8	214.5	4.7	11.3	335.6	291.6	627.1
2020	26.0	86.3	0.4	1.8	256.1	214.5	5.0	10.4	287.4	313.0	600.4
2021	25.0	90.1	0.3	1.4	280.0	242.2	5.3	10.8	310.6	344.6	655.2
YTD	32.9	81.3	0.2	1.3	323.4	250.9	4.9	10.7	361.4	344.1	705.5

Source: FINRA TRACE, SIFMA estimates

Note: ADV = average daily trading value. 2018 = week of 12/31; YTD = as of week of 7/18/22. Bills = maturities <1 year; FRN = floating rate note; TIPS = Treasury inflation-protected securities. D2D = dealer to dealer, includes alternative trading systems and interdealer brokers; D2C = dealer to customer

The charts above show the significant differences in volume across various sectors of the market. As discussed below, we urge a thorough analysis of the factors driving liquidity in each segment and how those factors might react to increased post-trade public dissemination of information. As illustrated in the above charts, the analytic starting point for such a review should be the distinction between on-the-run securities and all the other segments of the market.

Existing Post-Trade Disclosure Regime and Potential Improvements to Non-Public Disclosures

As noted above, transparency has already increased significantly in recent years. Since 2017, FINRA has collected post-trade transaction data for secondary market cash securities transactions through the Trade Reporting and Compliance Engine (TRACE). Since March 2020, FINRA has released weekly aggregated volume data broken down by security type, tenor, on- and off-the-run, and interdealer versus dealer-to-customer market segment; in May 2021, it also released historical data dating back to January 2019. The Federal Reserve Board has also implemented a rule requiring banks with at least $100 million in average daily trading to report those transactions to TRACE.[15] FINRA is also considering enhancements to TRACE that would shorten the reporting timeframe for transactions in U.S. Treasury securities to 60 minutes.[16]

This enhanced transparency has generally proven to be beneficial, adding to the mix of information available to policymakers (though the pending proposals, such as the 60-minute reporting requirement,[17] should be considered in light of the RFI process). Moreover, we are broadly supportive of additional *non-public* data disclosures to the official sector that would support their market monitoring and supervisory functions. Any additional non-public requirements should, however, focus on continuing to close the current gaps in the reporting regime, such as in electronic broker platforms and reporting by PTFs and other high frequency trading (HFT) entities[18]. Reforms to existing regulatory reporting requirements should also carefully consider the timelines, data definitions and practical challenges for firms gathering the data.

Post-Trade Transaction-Level Public Disclosures Could Negatively Affect Less Liquid Market Segments

As noted above, while a robust and comprehensive set of non-public disclosures to the official sector undoubtedly benefit the ability of regulators and policymakers to monitor the market, the case for mandating additional *public* disclosures is less clear. In addition to considering potential benefits, policymakers should weigh the potential detriments in terms of reduced liquidity resiliency and market integrity from enhanced public disclosures, which in turn will vary significantly by market segment. For example, in the highly liquid on-the-run market segment, there is already a high degree of price

[15] *See* 86 Fed. Reg. 59716 (Oct. 28, 2021) (adopting an implementation timeline of Sept. 1, 2022).
[16] 87 Fed. Reg. 33844 (June 3, 2022).
[17] *Id.*
[18] We note that the SEC has proposed to expand the definition of government securities dealer and, depending on how that proposal is finalized, that may extend reporting to HFTs. *See* 87 Fed. Reg. 23504 (Apr. 18, 2022).

transparency, as well as a broad range and large number of market participants. In this context, mandating additional public disclosures, such as near-real-time transaction level price data and block size data, would likely not be nearly as harmful to the operation of this segment of the market as compared to other segments.

However, enhanced disclosures of transactions and block sizes could have a much more significant and negative impact on less liquid portions of the market, specifically in the following segments: off-the-run securities, particularly older securities; longer-tenor securities (*e.g.*, longer-dated T-Bonds, as opposed to T-Notes and T-Bills); and in the STRIPS, TIPS and floating rate note market segments. The investors in these markets are predominantly large institutional investors, including large asset managers, pension funds, hedge funds, foreign central banks and other sovereign funds, and many of these investors engage in large transactions executed over a period of days and weeks.

As the 2021 IAWG Staff Progress Report noted, there is a concern among a broad range of market participants about releasing trade data too quickly, or at too granular a level, in these parts of the market, because doing so would hamper the ability of market participants to trade large, concentrated positions.[19] For example, the information could be used by other market participants to trade against a market-maker that has acquired a large position and is in the process of offloading that position. Near-real-time disclosures of price data and large block size data would reduce the incentives for dealers and many institutional clients to participate and invest over the long-term in these market segments. The net effect of this would be to increase the costs to investors of entering and exiting positions, in turn reducing liquidity resiliency in these segments of the market and, significantly, raising the costs to Treasury of issuing debt (given that the liquidity premium it enjoys would be reduced).

Given these significant risks and their potential variation among market segments, further study and analysis of post-trade data in each segment of the market (*i.e.*, on-the-runs vs. off-the-runs; short tenor vs. long tenor; as well as STRIPS, TIPS and floating rate notes) is required to determine with sufficient granularity the extent to which additional public transparency is appropriate, if at all. As part of that process, policymakers should continue to engage in a robust dialogue with the investors and end-users in those market segments—through this RFI process and other channels—to determine if the market segment requires more public dissemination and, if so, the character of such dissemination. In addition, before moving forward with public dissemination mandates Treasury should ensure that gaps in non-public reporting to regulators are closed and that rigorous analysis of potential impacts are conducted, as described further below.

[19] 2021 IAWG Staff Progress Report at p. 22.

Benefits and Risks of Additional Public Transparency in the Treasury Securities Market Should Be Analyzed

Policymakers also should clearly articulate the rationale for introducing enhanced public disclosures and their expected benefits so that they can be weighed against expected costs. As noted above, while there are clear benefits of enhanced non-public disclosures to supervisors and regulators, the specific benefits of mandating enhanced *public* transparency in these markets are far less clear. While some incremental market benefits may be associated with public dissemination, such as transaction cost benchmarking and the development of better predictive analytics that may aid some market participants, these benefits have to be weighed against the potential negative impacts on depth and liquidity from inappropriately calibrated requirements. In our view, before moving forward on implementing an enhanced public dissemination regime, a clearer description of the need for such a change and a quantification of the expected benefits and risks is needed.

The main purposes and benefits of the overall review of Treasury market structure is to identify changes that will enhance both capacity and resiliency. The RFI notes the three most recent significant volatility events and asks whether additional transparency would have helped improve or hurt market resilience during those events. It remains unclear to us how additional transparency would have improved overall market capacity and resiliency during the October 2014 flash rally and the September 2019 repo market pressures; we also do not think additional transparency would have eased the liquidity constraints during March 2020.[20]

Moreover, cash markets that are already subject to post-trade transparency, such as the U.S. corporate bond market, also suffered significant dislocations during March 2020. U.S. equity markets, which are among the most transparent markets globally, have also suffered flash crashes. This demonstrates that additional public transparency is not necessarily a remedy for these types of events. On the other hand, in each of these events, there is little doubt that the official sector would have benefited from more detailed and timely information to help analyze the market dynamics and determine whether and to what extent any government response would be appropriate.

[20] For a discussion of these events and the issues they presented to the Treasury market *see* Peter Ryan and Robert Toomey, 2021, "Improving Capacity and Resiliency in U.S. Treasury Markets. Part I: Why is Reform Needed? A Brief History of Recent Market Disruptions", available here.

In short, there is little evidence that public policy or market participant interests would be meaningfully enhanced with additional public dissemination of transaction or market information.[21] There is no evidence, for example, that public confidence in the Treasury markets has materially decreased or that additional public disclosures would significantly alter public perceptions of how the market operates. It also is not clear which market participants would benefit from additional public disclosures. [22]

Therefore, as we also noted in the SIFMA 2016 Letter, "there are significant identifiable and predictable risks to market diversity, liquidity and resiliency that arise from the prospect of mandatory increased public disclosures that outweigh any potential (as yet unidentified) benefits."[23] As we have also noted, risks are particularly apparent in less liquid segments of the market (*e.g.*, off-the-runs; longer-dated Bonds; and in the STRIPS and TIPS market segments).

Implementation and Phase-in

Given the potential for disruption to these important markets if dissemination parameters and timing are not calibrated appropriately, it is important that different approaches to disclosures (including the granularity of data, aggregation of data, frequency of release, time of day, data format, etc.) be studied and that any implementation of additional public disclosure be subject to a gradual phase-in and pilots that would provide sufficient time to evaluate the market effects at each stage. Sufficient analysis of the impacts in terms of liquidity and market participation should be made, with input from market participants and other stakeholders, before moving on to additional levels of dissemination for additional Treasury market segments.

A structure should be put in place to allow for flexibility and periodic recalibration of block sizes (including a reduction in block sizes, if appropriate) and dissemination delays that either reflects long-term changes/trends or short-term disruptions in the market. Ongoing public input in these recalibrations should be part of this approach.

This structured and gradual approach should recognize the different segments and begin any phase-in of dissemination with most liquid classes, most prominently the on-the-run sector and perhaps the first off-the-run sector. While we believe that there will be little impact in the on-the-run sector from further public dissemination, a thorough review of any consequences should be done before moving to additional classes. A similar rigorous review should follow dissemination implementation in each market segment with market participant input.

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[21] *SIFMA 2016 Letter*.

[22] Potential beneficiaries could include PTFs engaged in short-term proprietary trading activity. Although unclear, there may be additional liquidity/participation benefits from near-real-time dissemination for small size transactions in less liquid product like TIPS although appropriate time lags should be considered (*e.g.,* end of day) initially.

[23] *SIFMA 2016 Letter* at 3.

Should policymakers decide to move forward with additional public dissemination of transaction data, we urge a staged approach that would gather at least 12 months of data prior to analyzing any impact to the additional disclosure and before moving onto a next stage. This staged approach would allow for any consequences of the additional disclosure to be observed. Thus, we would urge, at a minimum, an 18-month evaluation period (12 months of data plus 6 months of analysis and public input) for each additional requirement.

Considerations for Additional Public Transparency as it Relates to Market Liquidity and Alternatives to Increase Market Liquidity

A liquid market is one where participants have the ability to readily trade at a predictable price and in a desired size without materially moving the market. While, by this definition, the Treasury market remains the most deeply liquid and well-functioning market in the world, the aggregate impact of changes in market structure, participation and the regulatory landscape over the last several years has fundamentally changed the nature of liquidity in the Treasury market. A broad appreciation of these changes is required in order to effectively monitor the market's liquidity, efficiency and fairness today. To fully observe and understand historical and ongoing changes in liquidity, we suggest that multiple metrics are needed, contextualized by market segment and, in some instances, participant type.

These metrics most commonly allow for the measurement of immediacy (speed of order execution), tightness of bid/ask spreads (low transaction costs), depth (abundant orders above and below the current price), breadth (numerous and large orders), and resiliency (new orders flowing in quickly to correct order imbalances). No single metric fully captures all of these dimensions, and so an examination of a variety of metrics is necessary to comprehensively evaluate how liquidity changes over time and how those changes may impact different market segments and participants.

If policymakers want to address capacity constraints and provide for more market making resiliency, we believe a more effective mechanism to do so would be exempting Treasury securities from the SLR calculation.[24] Doing so would free additional bank dealer balance sheet capacity, allowing these critical market makers to purchase larger volumes of Treasuries than is currently possible. This would be particularly important during periods of market stress; it is also important given the expected long-term growth in the volume of Treasury issuances.[25]

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[24] *See, e.g.*, *supra* note 3.

[25] "Although the importance of regulatory constraints cannot be pinned down precisely, the Fed's temporary relaxation of the SLR for [bank holding companies] is widely believed to have helped ease the pressures on dealer balance sheets." Nellie Liang and Pat Parkinson, *Enhancing Liquidity of the U.S. Treasury Market Under Stress*, Hutchins Center Working Paper No. 72 (Dec. 16, 2020), *available at* https://www.brookings.edu/research/enhancing-liquidity-of-the-u-s-treasury-

Proposed Data Dissemination Models

We address the specific examples posed in the RFI below. Our responses reiterate and elaborate upon our concerns and other comments discussed above and, in doing so, should help clarify them. Moreover, we believe that any additional consideration of data dissemination models should be further developed through additional proposal(s) and stakeholder engagement; we would welcome the opportunity to provide more detailed feedback to any such model(s) as a part of such processes.

Example A. For each individual CUSIP, daily average prices, trade count and traded volumes could be released. Please comment on the benefits and risks of this example.

While this example does not implicate many of the risks we have described above, there are important considerations—again based on the significant difference in volumes and liquidity in the on-the-run, off-the-run, FRN, STRIPS and TIPS sectors—to avoid negative outcomes for liquidity resiliency.

In order to limit the risks to liquidity and the negative consequences to the large risk transfers in which both dealers and end-user investors engage, the following should be incorporated into this disclosure model.

***Minimum number of trades*:** We urge that in the less liquid sectors of the market (including off-the-runs, FRNs, STRIPS and TIPS) there be a pre-determined minimum number of trades in a CUSIP before that CUSIP is included in aggregate trading volumes. Failure to do this could result, in some cases, in disclosure of individual transactions in CUSIPs where there is relatively limited daily activity.[26] Failure to do this could impact the viability of longer-term efforts to off-load a large risk position on behalf of significant investors.

Lagged disclosure: In addition, we urge that public dissemination of aggregate data on the less liquid segments be made with a significant time lag from the end of the reporting period. We believe that publication of aggregate data without a significant lag time could lead to disclosure of information on positioning and strategy that could compromise the needs of end investors who may need to transact in size over a period of time.

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market-under-stress/. *Cf.* Remarks by Under Secretary for Domestic Finance Nellie Liang at King's College London's Global Banking and Finance Conference (July 5, 2022), *available at* https://home.treasury.gov/news/press-releases/jy0850.

[26] Many CUSIPS in the older off-the-runs may trade episodically. As mentioned above, many more CUSIPS are spread over a far smaller ADV in the off-the-run segment.

Exclusion of large block transactions: Finally, we urge careful treatment of the inclusion of large block trades in the aggregate data. Given the relatively small volumes per CUSIP in the less liquid segments of the market, large block transactions can have a significant impact on the reported volumes and can also compromise the positioning and strategies of dealers and long-term investors. Consideration should be given to excluding transactions above a certain volume level from inclusion in the aggregate published data so that these strategies are not revealed prematurely to the market.

These three measures should, working together, mitigate some of the risks we have highlighted throughout this response, but any approach should be phased in, subject to pilots and tested over time---to calibrate the appropriate block limitations or the necessary number of minimum trades, for example--- to ensure no negative consequences to the market or certain classes of market participants.

Example B. Adding to Example A, transaction-level details could be released for on-the-run nominal coupons. Please comment on the benefits and risks of this example, including whether transactions above a certain dollar value should disclose the actual trade size or be subject to caps or additional delays. What specific caps or delays would be preferable, if any?

As we have noted elsewhere, we believe that there is currently sufficient information available to the market with respect to on-the-run nominal coupon securities. However, if further public dissemination is mandated, this Example B would offer the best method to develop the appropriate analytics and to understand any negative consequences to depth and liquidity in the on-the-run sector before imposing any further mandates are considered.

Notwithstanding this, we believe it is important to take care in developing the parameters for reporting and disclosure and to determine their impact. In particular, if this model were to be implemented, we urge beginning with end-of-day reporting/dissemination of the transaction-level data (with exceptions for additional lag times where warranted) and considering implementation of a shorter time frame after a full analysis of any impact on the market.

If this model were to be implemented, we also urge creating block volume reporting caps to ensure limited strategic positional information being available to the market. These caps should be established and instituted conservatively—consistent with the "do no harm" directive—including by specifically tailoring the caps to address trading conditions and market characteristics of different segments. For example, it is important to recognize the differences in volume for different tenors of securities, and therefore the caps should vary by tenor, reflecting the underlying trading characteristics of each instrument. These cap sizes should be developed over a sufficient observation period with as

complete data as is available prior to implementing them. These caps also should be reevaluated at reasonable intervals to understand any consequences to the markets and recalibrated, including lowered, as necessary. Further calibration is also necessary with delayed reporting; as cap size increases, lag times will also need to increase to provide equal protection to investors and other market participants.

It is important that transaction-level data does not disclose either participant in a transaction. This could lead to disclosure of the market views or trading strategies of particular market participants, which would have a negative impact on willingness to participate and intermediate in the market.

Finally, if additional reporting from additional market participants is required to implement further public transparency, Treasury should carefully assess the costs of mandating a reporting infrastructure on reporting entities and seek the most efficient reporting regime that reflects current capabilities but ensures that the official sector receives complete data on market activity. This may be most important in the dealer-to-customer segment of the market, where the reporting capabilities of customers are relatively limited. For reporting dealer-to-dealer trades, while both dealers may report, the reports should be matched and consolidated before public dissemination to avoid public confusion.

Failure to implement these mitigants could compromise activity of both dealers and end-users and cause them to limit their market activity to mitigate these risks, which we believe would ultimately be harmful to the market. As we have noted throughout this response, it is important to the proper functioning of the Treasury market that dealers and end-user investors have the ability to quickly and easily hedge large exposures and transact in large positions over time.

Example C. Adding to Example B, transaction-level details could be released for every Treasury security. Please comment on the benefits and risks of this example, including whether volume caps or delays should be tailored to different segments based on the different liquidity characteristics of Treasury securities in those segments.

As explained above, there are considerable risks in adopting this model for public dissemination and it could make it much more difficult to hedge exposures in this market and sell large-size transactions over a period of time. Additional dissemination requirements in the less liquid segments of the market could limit flexibility and decrease the depth of the market in these segments as participants limited their activity. These requirements could limit the access of end-users to liquidity and compromise positioning anonymity and possibly permit reverse engineering of strategies. While caps and time lags

are tools to limit the risks to the overall market, we believe that more research needs to be done to demonstrate the benefits and need for this additional public dissemination.

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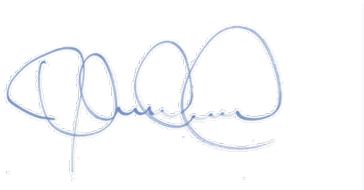
We very much appreciate your consideration of our input, and we look forward to continuing the dialogue on Treasury market resiliency. We will continue to work with our members to identify and advocate for any Treasury market structure proposals that could increase the capacity and resiliency of this important market.

If you have any questions on this letter, please contact any of the undersigned. You may also contact Rob Toomey at SIFMA (rtoomey@sifma.org), Lindsay Keljo at SIFMA AMG (lkeljo@sifma.org), Michelle Meertens at IIB (mmeertens@iib.org) or Ananda Radhakrishnan at ABASA (anandar@aba.com).

Sincerely,

Kenneth E. Bentsen, Jr.
President
Securities Industry and Financial Markets Association

Briget Polichene
Chief Executive Officer
Institute of International Bankers



Justin M. Underwood
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Cc: Nellie Liang
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Appendix A: Overview of the Associations

The Securities Industry and Financial Markets Association (SIFMA) is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's nearly one million employees, we advocate on legislation, regulation and business policy affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association.

SIFMA AMG brings the asset management community together to provide views on policy matters and to create industry best practices. SIFMA AMG's members represent U.S. and multinational asset management firms whose combined global assets under management exceed $45 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. For more information, visit http://www.sifma.org/amg.

The Institute of International Bankers (IIB) represents internationally headquartered financial institutions from over thirty-five countries around the world doing business in the United States. Its members consist principally of international banks that conduct U.S. operations through branches and agencies, bank subsidiaries, and broker-dealer subsidiaries. The mission of the IIB is to help resolve the many special legislative, regulatory, and tax issues confronting internationally headquartered financial institutions that engage in banking, securities and/or insurance activities in the United States.

The ABA Securities Association (ABASA) is a separately chartered trade association and nonprofit subsidiary of the American Bankers Association whose mission is to represent the interests of banks underwriting and dealing in securities, proprietary mutual funds, and derivatives before Congress and the federal government.