

January 3, 2022

Via Electronic Mail

Hon. Gary Gensler, Chair  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

Re: Treasury Market Structure Reform

Dear Chair Gensler:

The Healthy Markets Association writes to offer suggestions to improve the transparency, integrity, and resiliency of the markets for US Treasury Securities.<sup>1</sup>

The markets for Treasuries are arguably the most important markets in the world, undergirding much of the US and global financial system. And yet, time and again, these markets have proven susceptible to actions that have undermined their stability and integrity. Amidst growing concerns about potential strains on these enormous markets,<sup>2</sup> we focus on three key opportunities for improvement:

- Improving timely access to market information;
- Enhancing transparency, reducing conflicts of interest, and ensuring integrity of Treasuries trading venues; and
- Reducing risks of trade processing and settlement.

We urge you to work with the Inter-Agency Working Group on Treasury Market Surveillance (“IAWG”)<sup>3</sup> and the Financial Industry Regulatory Authority (“FINRA”) to implement these reforms to promote transparency, integrity and stability of the markets for Treasuries without delay.<sup>4</sup>

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<sup>1</sup> Healthy Markets Association (“HMA”) is a not-for-profit member organization of public pension funds, investment advisers, broker-dealers, exchanges, and market data firms focused on reducing conflicts of interest and improving the transparency, efficiency, and fairness of the capital markets. To learn more about HMA or our members, please see our website at <http://healthymarkets.org/about>.

<sup>2</sup> See, e.g., Paul J. Davies, *Is the U.S. Treasury Market Too Big to Trade?*, Bloomberg, Dec. 8, 2021, available at <https://www.bloomberg.com/opinion/articles/2021-12-08/the-massive-u-s-treasury-market-is-showing-signs-of-strain-and-dysfunction>.

<sup>3</sup> The Inter-Agency Working Group for Treasury Market Surveillance, which was formed in 1992, is currently comprised of the staffs from the Treasury Department, Federal Reserve Board of Governors, Federal Reserve Bank of New York, Securities and Exchange Commission, and Commodity Futures Trading Commission.

<sup>4</sup> We very much appreciated your remarks before the Inter-Agency Working Group on Treasury Market Surveillance. Remarks of Hon. Gary Gensler, SEC, before the U.S. Treasury Markets Conference, Nov.

## Background

Following extreme volatility in the market for Treasuries in October 2014, the IAWG released a joint staff report that proposed:

- further study of the evolution of the U.S. Treasury market and its implications for market structure and liquidity,
- continued monitoring of trading and risk management practices across the U.S. Treasury market and a review of the current regulatory requirements applicable to the government securities market and its participants,
- an assessment of the data available to the public and to the official sectors on U.S. Treasury cash securities markets, and
- continued efforts to strengthen monitoring and surveillance and to promote interagency coordination related to the trading across the U.S. Treasury market.<sup>5</sup>

In November 2021, the IAWG released a “Progress Report” on efforts to improve the transparency and resiliency of the markets for Treasuries.<sup>6</sup> The Progress Report found that, despite the best efforts of FINRA, little progress has been made.<sup>7</sup>

Below, we offer ways to improve the transparency, integrity, and stability of these markets.

### Promote Timely Access to Essential Market Information

The lifeblood of any market is information. Yet, despite their incredible size and depth, the markets for Treasuries remain incredibly opaque. Bringing transparency to these markets could empower market participants and regulators, while reducing risks of manipulation and abuse.<sup>8</sup>

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17, 2021, available at <https://www.sec.gov/news/speech/gensler-us-treasury-market-conference-20211117>.

<sup>5</sup> U.S. Dep’t of Treasury, et. al, *Joint Staff Report: The U.S. Treasury Market on October 15, 2014*, July 13, 2015, available at <https://home.treasury.gov/system/files/276/joint-staff-report-the-us-treasury-market-on-10-15-2014.pdf>.

<sup>6</sup> U.S. Dep’t of Treasury, et. al, *Recent Disruptions and Potential Reforms in the U.S. Treasury Market: A Staff Progress Report*, Nov. 8, 2021, available at <https://home.treasury.gov/system/files/136/IAWG-Treasury-Report.pdf> (“Progress Report”).

<sup>7</sup> Progress Report.

<sup>8</sup> Unfortunately, without comprehensive information for both cash Treasuries and other Treasury-linked products being widely available, manipulations in the markets have often persisted for years. See Press Release, *NatWest Markets Pleads Guilty to Fraud in U.S. Treasury Markets*, U.S. Dep’t of Justice, Dec. 21, 2021, available at

For market participants, the Commission should work with the Treasury Department, banking regulators, FINRA, the Commodity Futures Trading Commission, and market participants to ensure the timely access to essential information about Treasuries at reasonable cost.<sup>9</sup> Of course, that begins with basic trade information.

Trades in Treasuries should be reported and disseminated in real time.<sup>10</sup>

Without regulatory intervention, market participants will continue to be deprived of this essential information about what is arguably the most important market in the world. Past private efforts to promote Treasury market transparency – even large ones backed by a critical mass of market participants – have failed.<sup>11</sup>

Unfortunately, while some market venues may disseminate information to their subscribers in a timely manner, there is no centralized collection of that information from all relevant sources and the bilateral dealer-to-customer market is extremely opaque. Some trading venues may sell information to data providers and market participants, while others will not.<sup>12</sup>

Significant trade information is already being reported and a subset of that is aggregated and disseminated to the public. Since July 10, 2017, FINRA members have been required to report transactions in US Treasury Securities to its Trade Reporting And Compliance Engine (TRACE).<sup>13</sup> Unfortunately, that information is delayed

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<https://www.justice.gov/opa/pr/natwest-markets-pleads-guilty-fraud-us-treasury-markets> (regarding spoofing from 2008 to 2018); see also, Press Release, *JPMorgan Chase & Co. Agrees To Pay \$920 Million in Connection with Schemes to Defraud Precious Metals and U.S. Treasuries Markets*, U.S. Dep't of Justice, Sept. 29, 2020, available at <https://www.justice.gov/opa/pr/jpmorgan-chase-co-agrees-pay-920-million-connection-schemes-defraud-precious-metals-and-us> (regarding years of spoofing in the Treasuries futures markets).

<sup>9</sup> While not the subject of this letter, we also agree with calls for more consistent and consolidated oversight of the federal financial regulators, and believe that a “Memorandum of Understanding” structure would greatly improve cooperation, information sharing, and enforcement. See, Yesha Yadav, *The Failed Regulation of U.S. Treasury Markets*, 121 Columbia Law Review 1173, 1184 (2021), available at <https://scholarship.law.vanderbilt.edu/cgi/viewcontent.cgi?article=2253&context=faculty-publications>.

<sup>10</sup> See, e.g., Citadel Securities, *Enhancing Competition, Transparency, and Resiliency in U.S. Financial Markets*, at 9-10, May 2021, available at <https://s3.amazonaws.com/citadel-wordpress-prd102/wp-content/uploads/sites/2/2021/05/03130457/EnhancingCompetitionTransparencyandResiliencyinUSFinancialMarkets.pdf>.

<sup>11</sup> See, e.g., Kenneth Gilpin, *Data Service on Treasuries Challenges Dow Jones Unit*, N.Y. Times, June, 17, 1991, available at <https://www.nytimes.com/1991/06/17/business/data-service-on-treasuries-challenges-dow-jones-unit.html> (exploring the launch of “Govpx Inc., a for-profit organization comprising 40 primary dealers, 3 firms that aspire to become primary dealers and 5 interdealer brokers, ... [which intended to] carry prices on about two-thirds of the \$118 billion in Government securities traded daily.”).

<sup>12</sup> For example, we are aware of several market participants being unable to access essential trading information from CME Group’s BrokerTec. For more on BrokerTec, see <https://www.cmegroup.com/trading/market-tech-and-data-services/brokertec.html>.

<sup>13</sup> *Reporting Transactions in U.S. Treasury Securities*, FINRA, Reg. Not. 16-39, Oct. 2016, available at [https://www.finra.org/sites/default/files/notice\\_doc\\_file\\_ref/Regulatory-Notice-16-39.pdf](https://www.finra.org/sites/default/files/notice_doc_file_ref/Regulatory-Notice-16-39.pdf).

significantly, and what is disseminated is done so on an aggregated basis. It isn't very useful.<sup>14</sup> In a market often measured in microseconds, several minute delays are an eternity.

More information should be disseminated beyond FINRA's aggregated weekly statistics.<sup>15</sup> Notably, in December 2020, FINRA proposed a number of reforms to Treasuries trade reporting to TRACE.<sup>16</sup> In particular, the FINRA TRACE Proposal would impose:

1. more granular execution timestamps;
2. a shortened trade reporting timeframe;
3. new indicators to identify non-alternative trading system (ATS) trading venues and method of execution, the trading unit within a firm executing a trade, and the method used to clear and settle a transaction;
4. new modifiers to identify additional multi-leg transactions and whether a transaction is priced at the current market;
5. standardized price reporting; and
6. separate reporting of per-transaction ATS fees.<sup>17</sup>

Notably, while these reforms would materially reduce reporting timeframes, it would nevertheless continue to be inadequate for market participants' use as an important real-time trading tool. For example, while last trade price and quantities are generally disseminated to ATS subscribers in real time, the information would not be provided until significantly later for TRACE-dependent traders. Notably, FINRA's TRACE currently collects this information in other fixed income securities to improve post-trade transparency, and has demonstrated that it can disseminate such information in a timely manner upon report receipt. It should just do that.

As an initial step, the Commission should consider mandating public dissemination of trade information that is already being made available in real time to a portion of the market (i.e., ATS subscribers). These trades should be reported in real time and TRACE

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<sup>14</sup> See Brian Chappatta, *Treasury's Long-Awaited Data Release Fall Flat*, Bloomberg, Sept. 24, 2019, available at <https://www.bloomberg.com/opinion/articles/2019-09-24/treasury-s-long-awaited-market-data-release-falls-flat>.

<sup>15</sup> *Treasury Aggregate Statistics*, FINRA, available at <https://www.finra.org/finra-data/browse-catalog/treasury-weekly-aggregates> (last viewed Jan. 1, 2022).

<sup>16</sup> *Trade Reporting and Compliance Engine (TRACE): FINRA Requests Comment on Enhancements to TRACE Reporting for U.S. Treasury Securities*, FINRA, Reg. Not. 20-43, Dec. 23, 2020, available at <https://www.finra.org/sites/default/files/2020-12/Regulatory-Notice-20-43.pdf> ("FINRA TRACE Proposal").

<sup>17</sup> FINRA TRACE Proposal, at 1.

(or another dissemination mechanism) should provide a comprehensive, real-time dissemination solution.

Reliable quotation information is also extremely important. Here, of course, there are material differences between “on-the-run” Treasuries and those that are “off-the-run.” “On-the-run” Treasuries trade much more like extremely liquid equities or other financial instruments through automated mechanisms, whereas “off-the-run” instruments are much less liquid, and often trade very differently. But there are also very significant differences in their importance to the overall fixed income markets.

“On-the-run” Treasuries quotations play a huge role in the fixed income markets overall. Many fixed income assets are priced based in reference to the relevant US treasury security yields. As a result, the provision of timely, accurate pre-trade data is critically important for best execution and investor protection -- not only to market participants in Treasuries, but also for all the other markets that rely upon them for reference prices.

It is difficult for investors and other market participants to accurately assess the quality of their trade executions without both pre- and post-trade price transparency. But this transparency is important for not just trading in Treasuries, but also for those fixed income products that are priced off of them. Tradeweb made this point very clear: “Spread trading, in which a spread is quoted above a benchmark government bond yield, is a conventional form of transacting in investment grade credit markets, offering investors a simple way to evaluate corporate credit risk... When investors agree on a spread for a corporate bond, the trade is not always spotted against the corresponding Treasury at the same time.”<sup>18</sup>

Accurate, current and transparent pre-trade data is critically important for best execution and investor protection not only to market participants in US Treasury Securities markets, but also for those who engage in all the other markets that price themselves off Treasuries prices (or yields).<sup>19</sup>

We urge the Commission and FINRA to require Government ATSS to report all Treasuries quotations to FINRA or another public reporting and dissemination provider (i.e., competing disseminator) for public dissemination in real time. In doing so, the Commission and FINRA should seek to avoid recreating the flawed equity market data infrastructure, and should require that information provided to TRACE or other reporting and dissemination providers not be received by market participants of their subscription feeds prior to the public dissemination by FINRA or the other providers. While this could involve just providing all of the information to FINRA, we are concerned that this

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<sup>18</sup> Tradeweb, *Net Spotting: Reducing Trading Costs for US Corporate Bonds*, 4, available at <https://financedocbox.com/Stocks/116165527-Net-spotting-reducing-trading-costs-for-u-s-corporate-bonds.html>.

<sup>19</sup> See e.g., Remarks of Chris White, BondCliq, before the SEC Fixed Income Market Structure Advisory Cmte, SEC, June 1, 2020, available at <https://www.sec.gov/spotlight/fixed-income-advisory-committee/bond-cliq-presentation-june-2020.pdf>.

important regulatory function could give rise to monopolistic, commercial pricing concerns.

Other fixes to trade transparency are also needed. For example, FINRA's reporting mandate doesn't apply to some of the largest traders in Treasuries. So there isn't just a problem of what trades and quotations get reported and disseminated (and their timeliness), but also who files reports. While the Federal Reserve Board of Governors has proposed mandating banks to report trades to TRACE, the collection of daily transactions in marketable Treasuries from banks is not scheduled to begin until September 2022.<sup>20</sup>

We urge you to work with the federal financial regulators and FINRA to expand the scope of who reports Treasuries market information to cover the entire marketplace. Regulation should initially focus on bringing ATS pre-trade transparency out of the "club" and into the light.

As an aside, we remind the Commission that market participants and regulators have different informational needs. While there is significant overlap between the types of information collected for each purpose, they are not the same. Information used by market participants can and should be collected and disseminated in real-time (or as close to that as feasible). Regulators, by contrast, would generally be unlikely to analyze or take action in real-time. Further, information that may be useful for regulatory supervision purposes could likely be collected at the end-of-the-day (and potentially not disseminated). TRACE is a real-time reporting system. There are significant expenses and technological challenges of cramming more information into a real-time regime. One way to address those challenges could be to bifurcate reporting so that some information goes into TRACE in real-time, while separately developing an end-of-day reporting schema (similar to the Consolidated Audit Trail).

Lastly, we remind you that FINRA's proposal and our recommendation would essentially vest in FINRA a market data utility that would be used by market participants and could have monopolistic characteristics. The Commission should be careful to ensure that FINRA remains sufficiently committed to investing the resources necessary to provide this important service, while also not exploiting regulatory and potential pricing powers.

### Enhance Transparency, Reduce Conflicts of Interest, and Ensure Integrity of US Treasury Securities Trading Venues

Over a year ago, the Commission proposed revisions to Regulation ATS and Regulation Systems Compliance and Integrity (SCI) for government securities ATSS ("Government ATSS").<sup>21</sup> That proposal would, if adopted, increase transparency, reduce conflicts of

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<sup>20</sup> *Agency Information Collection Activities: Announcement of Board Approval Under Delegated Authority and Submission to OMB*, Federal Res. Board of Governors, 86 Fed. Reg. 59716 (Oct. 28, 2021), available at <https://www.govinfo.gov/content/pkg/FR-2021-10-28/pdf/2021-23432.pdf>.

<sup>21</sup> *Regulation ATS for ATSS That Trade U.S. Government Securities, NMS Stock, and Other Securities; Regulation SCI for ATSS That Trade U.S. Treasury Securities and Agency Securities; and Electronic*

interest, and promote the integrity of trading venues for Treasuries.<sup>22</sup> HMA joined the Investment Company Institute, the Managed Funds Association, and several market participants in urging the Commission to adopt the proposal.<sup>23</sup>

In addition, we urge the Commission and FINRA to require Government ATSs to report to FINRA quotations for “on-the-run” US Treasury Securities, which often serve as the reference prices for block and other episodic-demand liquidity. Further, as discussed above, the prices from these Government ATSs also serve as references for many other fixed income securities, including “off-the-run” US Treasury Securities, corporate bonds, and more.

### Reducing Risks of Trade Processing and Settlement -- Central Clearing

As the IAWG’s recent Progress Report noted, “In recent years, approximately one-half of interdealer cash trades (representing about one-quarter of the total cash market) have been centrally cleared.”<sup>24</sup> This is significantly less of the market than was centrally cleared several years ago.

The Progress Report noted that expanding central clearing for US Treasury Securities beyond the current levels could have “a range of benefits,” including:

- Allowing for more standardized, enhanced, and more transparent risk management;
- Enabling balance sheet netting (which could reduce balance sheet needs), settlement netting, and trade guarantees;
- Enhancing firm-level and market-wide visibility; and

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*Corporate Bond and Municipal Securities Markets*, SEC, 85 Fed. Reg. 87106 (Dec. 31, 2020), available at <https://www.govinfo.gov/content/pkg/FR-2020-12-31/pdf/2020-21781.pdf>.

<sup>22</sup> See, e.g., Citadel Securities, *Enhancing Competition, Transparency, and Resiliency in U.S. Financial Markets*, at 13, May 2021, available at <https://s3.amazonaws.com/citadel-wordpress-prd102/wp-content/uploads/sites/2/2021/05/03130457/EnhancingCompetitionTransparencyandResiliencyinUSFinancialMarkets.pdf>.

<sup>23</sup> Letter from Tyler Gellasch, HMA, to Vanessa Countryman, SEC, Mar. 22, 2021, available at <https://www.sec.gov/comments/s7-12-20/s71220-8530174-230263.pdf>. See also, Letter from Sarah A. Bessin and Nhan Nguyen, ICI, to Vanessa Countryman, SEC, Mar. 1, 2021, available at <https://www.sec.gov/comments/s7-12-20/s71220-8431900-229619.pdf> (“interdealer Treasury platforms typically feature highly competitive, non-discretionary automated trading between anonymous participants using algorithms in a high-speed, low latency environment. Based on these considerations, applying Regulation ATS and Regulation SCI to these platforms is appropriate and would promote operational transparency, fair access, and system security and resiliency.”); Letter from Jennifer Han, Managed Funds Association, to Vanessa Countryman, SEC, Mar. 1, 2021, available at <https://www.sec.gov/comments/s7-12-20/s71220-8431832-229618.pdf>; and letter from Stephen Berger, Citadel, to Vanessa Countryman, SEC, Mar. 1, 2021, available at <https://www.sec.gov/comments/s7-12-20/s71220-8431363-229614.pdf>.

<sup>24</sup> Progress Report, at 6.

- Proving a mechanism for additional improvements in market infrastructure.

Most notably, the Progress Report explained that:

By reducing gross exposures and flows and by providing a guarantee for centrally cleared transactions, a CCP may also reduce the likelihood that small shocks would be amplified and result in larger stress in the Treasury or other markets.<sup>25</sup>

Of course, there are some risks and costs that would come along with central clearing, including centralizing potential market-wide risks. Further, market participants will unquestionably incur costs related to the introduction of a new entity, as well as potential margin and capital contribution costs. But perhaps the greatest cost could come from a reduction in the liquidity of the markets themselves, if participants withdraw from the marketplace as a result of the new obligations. However, HMA believes that these risks and costs are, on balance, justified by the potential benefits. Further, these risks and costs may be effectively managed by the central counterparty, along with effective oversight by the IAWG members.

#### Conclusion

Thank you for your consideration, and we look forward to working with you on these very important issues. If you have any questions, please have your staff contact me by email at [ty@healthymarkets.org](mailto:ty@healthymarkets.org) or by telephone at (202) 909-6138.

Sincerely,



Tyler Gellasch  
Executive Director

Cc: Hon. Hester Peirce, Commissioner  
Hon. Elad Roisman, Commissioner  
Hon. Allison Herren Lee, Commissioner  
Hon. Caroline Crenshaw, Commissioner  
Robert Cook, President and CEO, FINRA

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<sup>25</sup> Progress Report, at 30.