

MEMO# 29655

January 20, 2016

Department of Treasury Seeks Public Comment on Evolution of Treasury Market Structure

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TO: FIXED-INCOME ADVISORY COMMITTEE No. 3-16
MONEY MARKET FUNDS ADVISORY COMMITTEE No. 2-16
SEC RULES COMMITTEE No. 4-16 RE: DEPARTMENT OF TREASURY SEEKS PUBLIC COMMENT ON EVOLUTION OF TREASURY MARKET STRUCTURE

Yesterday, the U.S. Department of Treasury (“Treasury”) issued a request for information (“RFI”) soliciting public input on structural changes in the U.S. Treasury market. [\[1\]](#) The RFI follows a July report issued by the staffs of Treasury, the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York, the Securities and Exchange Commission, and the Commodity Futures Trading Commission (“Joint Staff Report”). [\[2\]](#) The Joint Staff Report was issued in response to the unusual volatility in the Treasury market on the morning of October 15, 2014, and identified several steps for further work. [\[3\]](#) The RFI, which was written in consultation with the staffs of all the agencies that were involved in the Joint Staff Report, is intended to inform the ongoing work related to the next steps identified in the Joint Staff Report. Comments on the RFI are due 60 days after publication in the Federal Register.

The RFI provides a short background on the structure of the Treasury market and its evolution over the past two decades. [\[4\]](#) It discusses the move toward electronic trading in both in the Treasury cash and futures markets.

The RFI includes detailed questions in four areas, as follows:

- Section I requests comment on the evolution of the Treasury market, the primary drivers of that evolution, and implications for market functioning and liquidity.
 - This section includes many questions about defining and measuring liquidity in the Treasury market, and trading practices and their implications.
- Section II asks for information on risk management practices and market conduct across the Treasury market, both at trading venues and firms, and implications for operational risks and risks to market functioning and integrity.

- The questions in this section are primarily focused on whether risk controls in the Treasury market are adequate given the trend toward automated trading, including algorithmic trading.
- Section III notes the need for more comprehensive official sector access to data and requests comment on the types of data that should be made available to the official sector regarding the Treasury cash securities market and on numerous practical considerations associated with gathering that data.
 - These questions focus on what data may be necessary to monitor the Treasury market, who should report that data (including whether one or both counterparties should be required to report a trade), and what information about a trade should be reported and when, as well as operational considerations.
- Section IV seeks comment on whether additional reporting of Treasury market transaction data to the public would be beneficial, including questions regarding the appropriate level, timing, and granularity of any such reporting.
 - These questions focus on what data about the Treasury market should be publicly available, and ask about the use of data standards and identifiers.

Sarah A. Bessin
Associate General Counsel

endnotes

[1] Department of the Treasury, Notice Seeking Public Comment on the Evolution of the Treasury Market Structure, avail. at <https://www.treasury.gov/press-center/press-releases/Documents/Market%20Structure%20RFI%20Final.pdf>.

[2] Department of the Treasury, Board of Governors of the Federal Reserve System, Federal Reserve Bank of New York, Securities and Exchange Commission, Commodity Futures Trading Commission, Joint Staff Report: The U.S. Treasury Market on October 15, 2014 (July 13, 2015), avail. at https://www.treasury.gov/press-center/press-releases/Documents/Joint_Staff_Report_Treasury_10-15-2015.pdf.

[3] Specifically, the Joint Staff Report recommended next steps in four areas:

- Further study of the evolution of the Treasury market and its implications for market structure and liquidity;
- Continued monitoring of trading and risk management practices across the 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 Treasury cash securities markets; and
- Continued efforts to strengthen monitoring and surveillance and to promote interagency coordination related to the trading across the Treasury market.

Id.

[4] A more extensive discussion of the structure and evolution of the Treasury market may be found in the Joint Staff Report. See id.

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