

MEMO# 29787

March 23, 2016

Revised Draft ICI Comment Letter to Treasury on its Request for Information on the Evolution of Treasury Market Structure; Your Feedback Requested by Wednesday, March 30

[29787]

March 23, 2016

TO: FIXED-INCOME ADVISORY COMMITTEE No. 10-16
MONEY MARKET FUNDS ADVISORY COMMITTEE No. 7-16
SEC RULES COMMITTEE No. 14-16 RE: REVISED DRAFT ICI COMMENT LETTER TO TREASURY ON ITS REQUEST FOR INFORMATION ON THE EVOLUTION OF TREASURY MARKET STRUCTURE; YOUR FEEDBACK REQUESTED BY WEDNESDAY, MARCH 30

ICI has incorporated member comments on its draft comment letter to the Department of the Treasury ("Treasury") in response to its request for information ("RFI") on the evolution of Treasury market structure. [\[1\]](#) ICI's revised draft letter is attached and is summarized briefly below. Please provide any comments in writing by Wednesday, March 30, to Sarah Bessin at sarah.bessin@ici.org and George Gilbert at george.gilbert@ici.org.

Please note that members expressed differing views on the issue of public dissemination of Treasury cash market transactions. We have sought to address these comments by emphasizing the need for Treasury to take a data-driven approach to considering whether to propose public dissemination requirements in this market. The letter urges Treasury to balance carefully the perceived benefits of public dissemination against the potential for public dissemination to reduce liquidity and impair market quality. Consistent with this approach, the draft letter makes no recommendations about the potential scope or detail of public reporting requirements, other than urging Treasury to ensure that any such requirements make reasonable accommodations for block trades.

ICI's draft comment letter also makes the following points in response to the RFI:

- Funds' Experience in the Treasury Cash Market. Our draft letter briefly explains funds' experience transacting in this market. The letter notes that members have experienced changing conditions in the Treasury market and have adapted to these

conditions by adjusting their trading behavior. The letter explains that we appreciate the premise of the RFI that increased regulatory reporting would help Treasury and other stakeholders assess the functioning and development of this market. We believe, however, that more fundamental changes to market structure, such as trading halts, circuit breakers, public dissemination of certain trading activity, and platform-trading mandates could increase uncertainty and confusion and reduce liquidity if these changes are implemented prematurely or unnecessarily.

- **Official Sector Access to Data.** We understand Treasury's concern that the official sector generally lacks sufficient access to information about the Treasury cash market. The letter explains that, although we would expect to support carefully tailored reporting requirements for the Treasury cash market, we recommend that Treasury follow certain principles to increase the utility of reported data and minimize burdens on market participants. We encourage Treasury to ensure that it has adequate safeguards in place to protect the confidential information that it receives from market participants under any reporting rules for Treasury securities.
- **Reporting Parties and Scope of Reporting.** Any reporting rules proposed by Treasury should place reporting obligations only on dealers and other intermediaries, such as trading platforms and proprietary trading firms ("PTFs"), and not on end users of Treasury securities, such as funds. We urge Treasury not to apply any reporting rules to allocations. Our prior draft had recommended that Treasury not apply reporting obligations to securities lending and repo transactions, but we have determined to remove this argument.
- **Public Access to Data.** Treasury should ensure that any public disclosure requirements do not adversely affect the depth, liquidity, or functioning of the Treasury cash market by taking a two-step approach to considering such requirements. First, Treasury should limit any reporting to non-public reporting to Treasury. After Treasury has obtained data over a sufficient period of time, Treasury should consider the following factors in determining whether public disclosure is appropriate: (1) the goals such disclosure would be intended to achieve; (2) the data elements Treasury would propose to publicly disclose to achieve those goals; (3) whether those data elements would apply to all Treasury securities, or only a subset; and (4) whether publicly disclosing this data will achieve those goals without harming the market. Any public reporting regime should provide reasonable accommodations for block trades.
- **Compliance Period.** We recommend that Treasury not begin implementation of any reporting obligations until it ensures that those intermediaries active in the Treasury cash markets will be subject to a reporting obligation (including coordinating with other regulators to ensure registration of PTFs, to the extent necessary). We have modified this draft of the letter to recommend that Treasury consult with reporting parties to ensure an adequate compliance period for regulatory reporting rules, instead of suggesting concrete compliance periods for reporting. We also recommend that Treasury solicit comment on the appropriate implementation timeframe for public reporting requirement in connection with any proposed rules in this area.

George M. Gilbert
Counsel

[Attachment](#)

endnotes

[1] The RFI provides a short background on the structure of the Treasury market and its evolution over the past two decades. It discusses the move toward electronic trading in both in the Treasury cash and futures markets. The RFI solicits feedback on the following topics: (1) the evolution of the Treasury market, the primary drivers of that evolution, and the implications for market functioning and liquidity; (2) risk management practices and market conduct across the Treasury market; (3) the need for more comprehensive official sector access to data and the types of data that should be made available to the official sector regarding the Treasury cash market; and (4) whether reports of Treasury market transaction data should be made publicly available. For a more fulsome description of the RFI, see ICI memorandum No. 29655, available at https://www.ici.org/my_ici/memorandum/memo29655.

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