

MEMO# 33103

February 12, 2021

Your Comments Requested: Letter on SEC Proposed Government Securities ATS Rule and Fixed Income Electronic Trading Concept Release

[33103]

February 12, 2021 TO: Fixed-Income Advisory Committee
SEC Rules Committee RE: Your Comments Requested: Letter on SEC Proposed Government Securities ATS Rule and Fixed Income Electronic Trading Concept Release

As we previously informed you, the Securities and Exchange Commission (“Commission”) published for comment a proposed rule to require an alternative trading system (ATS) that trades government securities or repos and reverse repos on government securities (“Government Securities ATS”) to comply with Regulation ATS and file a new form (“Form ATS-G”).^[1] The proposed amendments would also apply Regulation SCI requirements to ATSs with certain volume thresholds in government securities. The Commission also issued a concept release that requests comment on fixed income electronic platforms that facilitate trading in corporate bonds and municipal securities. ICI has prepared a draft comment letter that expresses support for the Proposed Rule and offers views on the Concept Release.

The draft letter is attached and summarized below. In addition, the letter requests your specific feedback on several matters, including one described below. The letter is due to the Commission no later than Monday, March 1.

Please provide me with any feedback or comments on the draft by email at nhan.nguyen@ici.org or Sarah Bessin (sarah.bessin@ici.org) no later than COB Monday, February 22.

Summary

The draft letter notes that the proliferation of electronic trading platforms and protocols for trading in fixed income securities warrant consideration into whether the ATS regulatory framework should be updated to apply to these platforms and protocols.

The letter expresses support for the Proposed Rule, which would subject Government Securities ATSs to Regulation ATS and Regulation SCI requirements. This support is based on the fact that sophisticated electronic platforms and trading protocols have become a

significant feature of the US Treasury market. Therefore, applying ATS and SCI rules that promote operational transparency, investor protection, and system security and resiliency would be appropriate.

With respect to the corporate bond and municipal securities markets, however, the letter recommends that the Commission not impose Regulation ATS and the exchange framework on existing and emerging electronic trading protocols and functionalities that do not meet the definition of an ATS or an exchange. The letter explains that these rules do not account for the liquidity profiles of these markets and do not necessarily reflect the dynamics of trading in these markets. The letter also explains that existing trading protocols and functionalities in these markets provide buy-side market participants with critical flexibility for trading in less liquid markets. The letter states that if the Commission determines that applying a regulatory framework is necessary, then it should proceed carefully to account for these considerations. To improve the Commission's understanding of the scope of electronic trading, the letter recommends that it should work with FINRA and MSRB to improve the accuracy of relevant TRACE data elements. For trading platforms that are currently subject to Regulation ATS, the letter recommends that the Commission publish their respective Form ATSS as a way to promote operational transparency.

With respect to RFQ and streaming protocols for US Treasuries, however, ICI seeks member comment on whether they should be subject to Regulation ATS. In remarks at the most recent US Treasury Market Conference last September, SEC Commissioner Roisman observed that the Regulation ATS framework may not extend to all Treasury trading venues that utilize request-for-quote (RFQ) or streaming quote protocols, which he believes is a regulatory gap.[\[2\]](#)

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[Attachment \(in .pdf format\)](#)

endnotes

[\[1\]](#) ICI Memorandum No. 32795 (Oct. 1, 2020), available at https://www.ici.org/my_ici/memorandum/memo32795.

[\[2\]](#) Commissioner Elad L. Roisman, Remarks at U.S. Treasury Market Conference (Sept. 29, 2020), <https://www.sec.gov/news/speech/roisman-us-treasury-conference-2020-09-29>.