

MEMO# 34212

July 5, 2022

Treasury Department Issues Request for Comment on Additional Post-Trade Transparency in Treasury Market - ICI Member Call on July 14

[34212]

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TO: Fixed-Income Advisory Committee

Money Market Funds Advisory Committee

SEC Rules Committee RE: Treasury Department Issues Request for Comment on Additional Post-Trade Transparency in Treasury Market - ICI Member Call on July 14

The US Department of the Treasury ("Treasury") recently issued a request for public comment (RFC) on the possibility of additional post-trade transparency of data for secondary transactions in Treasury securities.^[1] Comments on the RFC, which is summarized below, are due to Treasury by August 26, 2022.

ICI will hold a members-only call to discuss potential comments on the RFC on Thursday, July 14, from 1-2 pm ET. If you would like to participate in the call, the Zoom participation information is:

<https://ici-org.zoom.us/j/94826921037?pwd=TXg3MUw2dFhBNTYyK2NZQkhtamRXQT09>

Meeting ID: 948 2692 1037

Passcode: 549410

Summary of Request for Comment

Background

Treasury explains that, in consultation with other members of the Inter-Agency Working Group on Treasury Market Surveillance (IAWG), it is considering potential ways to provide additional post-trade transparency of data for secondary transactions in Treasury securities. Treasury notes the benefits of increased post-trade transparency, but acknowledges the need as well for careful consideration of potential risks, given characteristics of the

Treasury market that differ from other fixed-income markets, such as differences in market segmentation, overall volumes, individual trade sizes, types of market participants, and methods of execution.

Treasury explains that the IAWG has organized its work to strengthen the resilience of the Treasury market into five workstreams, which are: (1) improving resilience of market intermediation; (2) improving data quality and availability; (3) evaluating expanded central clearing; (4) enhancing trading venue transparency and oversight; and (5) assessing effects of fund leverage and liquidity risk management practices. The IAWG staff has expressed support in further increasing transparency in the Treasury market.[\[2\]](#)

Treasury outlines the development of FINRA requirements to report Treasury market secondary transactions through its TRACE reporting system. Since 2017, FINRA members have been required to report Treasury market secondary transactions through TRACE. This information is shared with Treasury and other regulators, including the SEC. In 2020, FINRA began publicly releasing weekly aggregate volumes of Treasury transactions reported to TRACE. This reporting was enhanced in certain respects the following year. Treasury notes that "[m]arket feedback has indicated the current release of weekly aggregates provides helpful information without negative implications for liquidity, and that further transparency could be beneficial."[\[3\]](#)

Treasury explains that, since receiving TRACE data, it has coordinated with other IAWG members and FINRA to determine how to improve the quality of this data, partly in contemplation of potential additional transparency. Treasury summarizes actions FINRA has taken to improve the quality and coverage of the TRACE data, including FINRA's December 2020 proposed enhancements to TRACE reporting of Treasury transactions that would: (1) require more granular timestamps; (2) shorten the reporting time frame, in most cases, from end-of-day to within 60 minutes; (3) standardize price reporting, including separating ATS fees; and (4) introduce new modifiers to identify non-ATS venues, methods of execution, trading units within a firm executing a trade, multileg trading strategies, and methods used to clear and settle transactions.[\[4\]](#) More recently, FINRA has sought to further improve the quality of reported Treasury transaction data. In May 2022, FINRA filed a proposal with the SEC that would amend its rules for reporting transactions to TRACE. This proposal would require that: (1) timestamps for most electronic transactions be reported at the finest increment captured by the execution system, and (2) transactions generally be reported as soon as practicable, but no later than 60 minutes.[\[5\]](#) FINRA has also taken action to enhance post-trade transparency in the Treasury market, including obtaining approval from FINRA's Board of Governors to file a proposal with the SEC (in response to a request from Treasury) that would require FINRA to publish aggregated transaction information on Treasury securities more frequently.[\[6\]](#) Treasury also notes that, in October 2021, the Federal Reserve Board adopted a proposal that would require certain banks to report Treasury transactions to TRACE beginning in September 2022.[\[7\]](#)

The RFC follows recent remarks by SEC Chair Gary Gensler, in which he expressed support for greater post-trade transparency in the Treasury market,[\[8\]](#) stating:

I also think it may be time for FINRA to consider allowing the investing public to see TRACE data on individual Treasury transactions. Five years ago, TRACE was expanded to require broker-dealers to report Treasury transactions, but there isn't yet any public dissemination. Last fall, the Federal Reserve finalized a rule to use TRACE to require certain banks to report transactions in Treasuries, agency debt, and agency mortgage-backed securities to TRACE. Once more major firms have reporting requirements — the banks and potentially

principal trading firms in the future — I think it could make sense to disseminate this information to the public. Public dissemination of Treasury trade data could help enhance counterparty risk management and the evaluation of trade execution quality. It also could expand the provision of liquidity.

Solicitation of Comments

Treasury requests public comment on a number of questions relevant to considering additional post-trade transparency in the Treasury market. To facilitate discussion on our upcoming member call, we have included these questions in the attached Appendix.

Treasury notes certain considerations that may be relevant in evaluating the potential benefits and risks of additional transparency in the Treasury market, including:

- The differences among security types and trading venues (e.g., on-the-run fixed-rate Treasury securities are actively traded, largely on electronic interdealer platforms, while off-the-run Treasury fixed-rate securities are more often traded in the dealer-to-customer market through voice-based methods or electronic request-for-quote systems);
- The timing of reporting of transactions to TRACE and the potential for subsequent revisions to reports (including the relationship between the reporting timeframe and the treatment of late or revised transactions); and
- How best to measure liquidity in the Treasury market.

Treasury acknowledges that it historically has taken an incremental approach to greater public transparency in the Treasury market and notes that some market participants "have expressed concerns regarding the effect of additional transparency on the potential willingness and ability of intermediaries to engage in large institutional risk transfer in the Treasury securities market, in particular for off-the-run Treasury securities," which could "adversely affect market liquidity."^[9]

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endnotes

^[1] See Notice Seeking Public Comment on Additional Transparency for Secondary Market Transactions of Treasury Securities, 87 Fed. Reg. 38259 (June 27, 2022), available at <https://www.govinfo.gov/content/pkg/FR-2022-06-27/pdf/2022-13540.pdf> (RFC).

^[2] See Recent Disruptions and Potential Reforms in the U.S. Treasury Market: A Staff Progress Report (Nov. 8, 2021), available at <https://www.sec.gov/reports-and-publications/special-studies/iawg-treasury-report>. In 2016, ICI submitted a comment letter in response to a request for information by Treasury on the evolution of the Treasury market structure in which we addressed, among other issues, the implications of public reporting of Treasury market transactions. See Letter to Office of the Under Secretary for Domestic Finance, Department of the Treasury, from David W. Blass,

General Counsel, Investment Company Institute, dated April 8, 2016, available at <https://www.ici.org/system/files/attachments/29819.pdf>. We subsequently commented on a proposal by FINRA to require its members to report transactions in Treasury securities to TRACE, in which we supported FINRA's decision at that time to not propose a public dissemination requirement. See Letter to Mr. Brent J. Fields, Secretary, US Securities and Exchange Commission, from David W. Blass, General Counsel, Investment Company Institute, dated Aug. 15, 2016, available at <https://www.ici.org/system/files/attachments/30130.pdf>.

[3] RFC at 38260.

[4] See FINRA Regulatory Notice 20-43, available at <https://www.finra.org/sites/default/files/2020-12/Regulatory-Notice-20-43.pdf>.

[5] See <https://www.finra.org/sites/default/files/2022-05/SR-FINRA-2022-013.pdf>.

[6] FINRA May 2022 Board Update (May 20, 2022), available at <https://www.finra.org/about/governance/finra-board-governors/meetings/update-finra-board-governors-post-meeting-May-2022>.

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

[8] Chair Gary Gensler, "The Name's Bond:" Remarks at City Week (Apr. 26, 2022), available at <https://www.sec.gov/news/speech/gensler-names-bond-042622>. The Group of Thirty (G30) recently published their 2022 status update on Treasury market resilience, which also includes a recommendation on post-trade transparency:

Recommendation 8: The TRACE reporting system should be expanded to capture all transactions in U.S. Treasury securities and Treasury repos, including those of commercial bank dealers and principal trading firms. Furthermore, subject to a cap on the disclosed size of trades, the data should be publicly disclosed in a manner similar to the way that data on corporate bond transactions are currently disclosed.

Group of Thirty, Status Update 2022: U.S. Treasury Markets, Steps Toward Increased Resilience (June 30, 2022), available at https://group30.org/images/uploads/publications/G30_Treasury-Mkts-UPDATE_Final_Report.pdf.

[9] RFC at 38261.