MEMO# 34237

August 2, 2022

ICI Draft Letter to Treasury Department Regarding Additional Post-Trade Transparency in Treasury Market - Your Comments Requested by August 9

[34237]

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TO: Fixed-Income Advisory Committee
Money Market Funds Advisory Committee
SEC Rules Committee RE: ICI Draft Letter to Treasury Department Regarding Additional Post-Trade Transparency in Treasury Market - Your Comments Requested by August 9

In June, the US Department of the Treasury ("Treasury") issued a notice and request for information (RFI) on the possibility of additional post-trade transparency of data for secondary transactions in Treasury securities.[1] Comments on the RFI are due to Treasury by August 26, 2022, although ICI plans to file our comment letter early, on August 19, 2022.

ICI has prepared the attached draft letter, which is summarized below, for your review and comment. We have also included questions and notes to you in the draft on which we request your response. Please provide your written comments to Sarah Bessin at sarah.bessin@ici.org no later than Tuesday, August 9. That will give us the opportunity to revise the draft letter and circulate a "fatal flaw" draft on August 11-12. We will request final comment on the "fatal flaw" draft by Tuesday, August 16.

Background

ICI's letter explains that funds are important and significant investors in the Treasury markets and support measures that promote liquidity in this market. We believe that post-trade public transparency, if appropriately calibrated, may be helpful in promoting liquidity; absent such calibration, however, it also may negatively affect liquidity.

The letter summarizes the history of regulatory reporting of secondary market transactions in Treasury securities and, more recently, FINRA's public reporting of weekly aggregated Treasury data. We note that FINRA has filed a proposal with the SEC that would permit FINRA to increase the frequency of this public reporting, potentially to daily reporting, and that other regulators, including the SEC, have expressed support for security-level public transparency in the Treasury market. The letter expresses support for regulatory efforts in recent years to reduce reporting gaps in the Treasury market and to enhance the quality of the data reported, including efforts by FINRA to improve the quality and coverage of TRACE data on secondary transactions in Treasury securities.

Benefits and Risks of Additional Public Transparency in the Treasury Market

Section 1 of the RFI asks a series of questions regarding the potential benefits and risks of additional transparency of Treasury market data. Generally, we believe that public transparency of Treasury market data may benefit the market and investors, provided the transparency of the data is carefully calibrated, such that the risks do not outweigh the benefits. ICI's letter outlines these potential benefits and risks, urging Treasury to take an incremental approach to increased post-trade transparency in the Treasury market. Our letter notes that potential benefits to funds from increased public transparency of data regarding transactions in the Treasury market include broadening access to more pricing data about Treasury transactions. We highlight, however, that public transparency of data regarding less liquid securities raises greater risks to funds and their investors, as well as to overall market liquidity.

Section 2 of the RFI asks how additional public transparency would improve Treasury market resilience and whether such additional transparency would have helped market resiliency during recent periods of market volatility. We caution Treasury that greater post-trade public transparency is not a panacea that would resolve all concerns about Treasury market structure. The letter explains that post-trade transparency is merely one tool that may help improve efficient market functioning and that other tools that may be helpful in further strengthening the resiliency of the Treasury market.

ICI urges Treasury, before establishing post-trade transparency in the Treasury market at the transaction level, to first assess the results of FINRA's proposal to require more frequent public reporting of aggregated Treasury data. This proposal, if adopted, would represent an increase in the frequency of public dissemination in the Treasury market. Treasury should wait an appropriate period of time after this proposal is adopted to assess its effect on the market and market participants, and then reassess after that whether additional post-trade public transparency should be considered.

Considerations Regarding Additional Public Transparency and Market Liquidity

Section 3 of the RFI asks how liquidity should be defined and measured in the Treasury market. Liquidity is generally understood to mean that transactions can be effected with significant speed and minimal price impact. While liquidity ultimately is multifaceted, ICI members report that relevant metrics for measuring liquidity in the Treasury market may include, among others, trading volume, trading frequency, realized bid-ask spreads, quoted depth, trade sizes, turnover, price impact measures, and block trade frequency. We also emphasize that, in defining a liquid market for a particular type of Treasury security, Treasury should ensure that it relies on a robust set of data captured over a sufficient time period that accounts for changing market conditions.

Potential Levels of Post-Trade Transparency

Section 4 of the RFI requests feedback on examples of different potential levels of post-trade transparency in the Treasury market. The letter explains that ICI members have concerns about reporting publicly transaction-level data about Treasury market transactions. Disseminating transaction-level data publicly risks identifying large investors, even if the data is anonymized. The risk of identification is greater the more granular is the data required to be reported, and the less liquid the security (e.g., off-the-run Treasury securities). We emphasize that regulatory reporting frameworks for other financial instruments—including equities, corporate bonds, structured products, municipal bonds, and swaps—do not include participant identification in publicly disseminated data. The letter then discusses the various examples in the RFI of potential levels of public disclosure and emphasizes that any additional public transparency should be phased in gradually over time.

Block Trades and Reporting Cap Sizes

Section 5 of the RFI asks, among other things, how volume data could be adjusted for large trade sizes if data were publicly disseminated and how, if at all, additional public transparency should vary based on (a) security type (i.e., fixed-rate nominal coupons, bills, FRNs, TIPS, and STRIPS), (b) on-the-run or off-the-run status, (c) maturity, or (d) other security characteristics including, but not limited to, average trading volumes or trade size. ICI recommends that Treasury incorporate block trade thresholds and a dissemination delay, as well as reporting cap sizes, into any framework for public dissemination of transaction-level Treasury data. Given the differing levels of liquidity across categories of Treasury securities, we urge Treasury to not adopt a "one size fits all" approach—rather, it should aim to devise lower block trade thresholds and longer dissemination delays for less liquid securities. In doing so, we urge Treasury to balance the perceived benefits of disclosure against the potential for an inappropriately high block trade threshold, an insufficient delay in dissemination, or too granular of a cap size, to harm market liquidity itself. To avoid such harms, we suggest that Treasury consider a conservative approach that initially sets block trade thresholds low with lower cap sizes, allows for an assessment of the effects on the market and market participants, and then enables adjustments to the thresholds or cap sizes as necessary with input from market participants.

Late Transactions and Revisions

Section 7 of the RFI asks how late transactions and revisions should be addressed in the publicly disseminated data and to what extent the volume of late transactions and revisions should influence dissemination timing. ICI's letter explains that data accuracy is important, both to the usefulness of data that is provided through regulatory reporting and data that is disseminated publicly. Thus, to the extent Treasury increases the frequency or amount of Treasury market data that is disseminated publicly, we support measures that seek to ensure this data is accurate, including delaying dissemination timing to provide an opportunity to correct erroneous data before it is disseminated.

Sarah A. Bessin
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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. For a summary of

the RFI, please see ICI Memorandum No. 34212 (July 5, 2022), available at https://www.ici.org/memo34212.