

MEMO# 34270

August 24, 2022

ICI Files Letter with Treasury Department on Additional Post-Trade Transparency

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TO: ICI Members

Fixed-Income Advisory Committee

Money Market Funds Advisory Committee

SEC Rules Committee SUBJECTS: Fixed Income Securities

International/Global

Investment Advisers

Money Market Funds

Trading and Markets RE: ICI Files Letter with Treasury Department on Additional Post-Trade Transparency

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.[\[1\]](#) On August 19, ICI filed a comment letter discussing member views regarding the issues raised in the RFI. ICI's comment letter is attached and is summarized below.

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. The letter summarizes the history of regulatory reporting of secondary market transactions in Treasury securities and, more recently, FINRA's publication of weekly aggregated Treasury data. We note that FINRA recently amended its rules to permit more frequent publication of aggregate Treasury data, potentially as frequently as daily, 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.

The letter explains that ICI members have a range of views regarding the benefits, risks,

and considerations relevant to potential additional public transparency of secondary market transactions in Treasury securities. These views may be informed, among other things, by a firm's trading style, typical transaction size, and investment strategy. Most ICI members believe that, while existing public transparency of Treasury market data is beneficial, additional considerations are relevant in determining whether further public transparency (and, if so, in what form) is beneficial to the Treasury market and its participants.

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, ICI members 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 many ICI members are concerned that greater public post-trade transparency of transactions in the Treasury market also raises potential risks and may result in less, rather than more, liquidity in this important market, particularly for off-the-run and other thinly traded Treasury securities.

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 one tool that may help improve efficient market functioning and that other tools may be helpful in further strengthening the resiliency of the Treasury market.

ICI urges Treasury, before considering further post-trade transparency in the Treasury market, to first assess the results of FINRA's recent amendment to Rule 6750 to permit more frequent publication of aggregated Treasury data. Treasury should wait an appropriate period of time after any more frequent publication of aggregated Treasury data by FINRA to assess its effect on the market and market participants, and then reassess whether further 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, distortions between yields, indicators of funding stress (e.g., basis and swap spreads), 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 most ICI members have concerns about public dissemination of transaction-level data about Treasury market transactions, although these concerns may be addressed if the data is subject to appropriately calibrated block thresholds, dissemination delays, and caps. We explain that members have the greatest concerns about public dissemination of transaction-level data regarding thinly traded Treasury securities, such as off-the-run securities, TIPS, STRIPS, and other Treasury securities at the less liquid end of the curve. Public dissemination of data about such securities raises a significant risk of harm to funds and their investors from front-running and other predatory trading practices. ICI strongly supports phasing in any additional public transparency 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. The letter explains that most ICI members strongly believe that, to protect liquidity in this critical market, Treasury should 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. We encourage Treasury to incorporate into any public reporting regime a mechanism or process that ensures input from all market participants, including funds. This process should incorporate periodic review and re-evaluation of whether changes to the public reporting regime are necessary or appropriate, including potential changes to block trade thresholds, dissemination delays, and caps, based on subsequent market data and events.

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. We note that for certain thinly traded Treasury securities, prompt dissemination of a trade of any size could impair liquidity (i.e., a transaction of any size in that security should be subject to a reporting delay).

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.

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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>.

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