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April 8, 2016

Office of the Under Secretary for Domestic Finance
Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Re: Notice Seeking Public Comment on the Evolution of the Treasury Market Structure (Docket No. TREAS-DO-2015-0013)

Dear Sir or Madam:

The Investment Company Institute ("ICI")[1] appreciates the opportunity to comment on the notice and request for information ("RFI") of the Department of the Treasury ("Treasury") on the evolution of the Treasury market structure.[2] Registered investment companies ("funds") are significant investors in the Treasury securities markets. As important end users of Treasury securities, funds have a strong interest in ensuring the integrity and quality of the Treasury market.

The RFI seeks comment on a range of issues regarding market participants' experience with the Treasury securities market as well as the feasibility and desirability of enhancing regulatory and public transparency in these markets. We agree with Treasury that the structure of the Treasury market has evolved over the past two decades,[3] and commend Treasury for taking a fresh look at how the Treasury market operates and functions.

Section I of our letter provides a brief explanation of funds' experience transacting in the Treasury market. This section explains that, while our members have experienced changing conditions in the Treasury market, they have adapted to these conditions by adjusting their trading behavior. We appreciate the premise of the RFI that increased regulatory reporting would help Treasury and other stakeholders assess the functioning and development of the Treasury market. We caution Treasury,

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[1] ICI is a leading, global association of regulated funds, including mutual funds, exchange-traded funds ("ETFs"), closed-end funds, and unit investment trusts in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI's U.S. fund members manage total assets of $16.9 trillion and serve more than 90 million U.S. shareholders.

[2] *See* Department of the Treasury, *Notice Seeking Public Comment on the Evolution of the Treasury Market Structure*, 81 Fed. Reg. 3928 (Jan. 22, 2016), *avail. at* https://www.gpo.gov/fdsys/pkg/FR-2016-01-22/pdf/2016-01246.pdf.

[3] *Id.* at 3928.

however, against prematurely or unnecessarily implementing more fundamental changes to market structure, which may have detrimental effects on the market. In Section II we explain our views on Treasury's interest in obtaining data about the Treasury cash market, and provide a number of recommendations concerning the parameters of any proposed reporting regime. We strongly believe that 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"). In Section III we address considerations regarding whether public access to data on the Treasury cash market is appropriate. Section IV explains the importance of providing an adequate period of time to allow market participants to come into compliance with any new reporting requirements in the Treasury cash markets.

I. Funds' Experience in the Treasury Market

The RFI requests comment on the evolution of the Treasury market, the primary drivers of that evolution, and implications for market functioning and liquidity. The RFI also seeks information about trading practices in the Treasury cash market. Although the answers to these questions are, to some degree, firm specific, we offer a few general observations on funds' experience in this market.

Funds transact in Treasury securities for various reasons, using different investment strategies. For example, funds may use Treasury securities to obtain desired exposure, to hedge risk associated with investments in other markets, to diversify their portfolios and to protect capital, among other strategies. As end users of Treasury securities, funds trade with dealers or other intermediaries, typically over the phone or through request-for-quote trading platforms. Funds cannot access liquidity available on interdealer platforms and all-to-all trading systems have not yet taken hold in this market, even though funds and other investors might well benefit from being able to source liquidity from a broader range of market participants. Our members report satisfactory liquidity in the Treasury cash market, but note that liquidity has diminished somewhat in recent years, at least in the dealer-to-client portion of the market.[4] Our members report that they have adapted to these changing conditions by adjusting their trading behavior.

The RFI draws comparisons to U.S. securities, commodities and derivatives markets and asks whether the standards governing the U.S. Treasury cash market should be aligned with standards in those other markets.[5] We urge Treasury to recognize that there are key differences among these markets that require further analysis. We appreciate the premise of the RFI that increased regulatory reporting would help Treasury and other stakeholders assess the functioning and development of the

[4] Our members report that a number of factors potentially have contributed to the reduced liquidity in the dealer-to-client portion of the Treasury cash market, including new regulations that have affected the operations and capital structure of banks and broker-dealers, and dealers scaling back bond inventories and market making activities.

[5] RFI, *supra* note 2, at 3931.

Treasury cash 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. Accordingly, before Treasury contemplates proposing these or any similar requirements on the Treasury cash market, it should first establish a reporting regime to gather data on this market, and assess whether the data support any further regulatory action targeted to address specific, identified market failures.

II. Treasury's Interest in Obtaining Data on the U.S. Treasury Cash Market

Treasury seeks input regarding whether the official sector should obtain more comprehensive access to data for transactions involving U.S. Treasury securities, particularly with respect to the cash market. We understand Treasury's concern that the official sector presently lacks sufficient access to information regarding the U.S. Treasury cash market. We generally support Treasury's efforts to obtain adequate data about this vital market to ensure an efficient and competitive market for all participants, including funds and other investors.

The RFI seeks comment on a variety of aspects of a potential reporting regime for Treasury securities, including which market participants should be subject to any reporting obligation, the scope of transactions that should be subject to reporting and the type of information that should be reported. The RFI, however, provides few details about Treasury's objectives in proposing a reporting regime. Although we would expect to support carefully tailored reporting requirements for the Treasury cash market, we believe it is critical that Treasury clearly define its objectives in seeking Treasury market data and describe in detail how it intends to use various elements of reported data before proceeding with any data reporting proposal. Understanding Treasury's objectives, and how it intends to use collected data will enable market participants to work with Treasury to create and evaluate any proposed data collection rules and make meaningful recommendations about the scope of data necessary to meet Treasury's needs. A more targeted and phased approach to data collection will provide regulators with ready access to relevant information and enable market participants to leverage cost efficiencies by utilizing existing infrastructure with minimal redesign.

This section explains our views on potential reporting requirements for the Treasury cash market. First, we recommend a set of preliminary considerations that we urge Treasury to follow in developing any reporting requirements for this market. Second, we suggest criteria that Treasury should use to determine how to assign any reporting obligations for cash market Treasury transactions. Third, we recommend that any reporting regime that Treasury proposes exclude internal allocations of bunched orders of Treasury securities.

A. Preliminary Considerations in Designing a Reporting Regime

Treasury should follow certain principles in developing any reporting requirements for Treasury securities. First, it should, to the extent possible, leverage existing reporting regimes and practices and seek consistency with regulators both domestically and globally. This will improve the quality and usability of the data that Treasury receives while simultaneously increasing efficiencies and lowering costs, especially for entities that are subject to a variety of reporting regimes. Second, Treasury should consider whether to adopt a centralized or decentralized model for reporting. Either model may be consistent with obtaining domestic and international consistency. Third, Treasury should address how it will maintain the information security of any data it collects. These considerations are discussed below.

1. Treasury Should Leverage Existing Reporting Regimes and Practices and Seek Consistency with Other Regulators

ICI recommends that any reporting regime for Treasury cash market securities borrow appropriately from existing reporting requirements to increase data quality and minimize compliance burdens on market participants, many of which already are subject to a multitude of reporting regimes.[6] According to the RFI, activity related to U.S. Treasury market trading often extends beyond individual regulator boundaries; it encompasses not only the primary and secondary cash securities markets, but also futures contracts and swaps which reference U.S. Treasuries, and U.S. Treasury ETFs traded as equities.[7] The interconnectedness of trading activity related to the U.S. Treasury markets means that many of the most active firms in these markets must presently comply with the reporting obligations of one or more regulators.[8] Achieving consistency with existing reporting regimes, such as those in the futures, swaps, and equities markets, will yield benefits for both regulators and market participants.

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[6] For example, broker-dealers registered with the U.S. Securities and Exchange Commission ("SEC") must report transactions in fixed income securities to the Trade Reporting and Compliance Engine ("TRACE"), operated by the Financial Industry Regulatory Authority ("FINRA"). Certain of these entities also are registered with the U.S. Commodity Futures Trading Commission ("CFTC") as futures commission merchants or swap dealers and have reporting obligations in those capacities. These market participants also may be subject to reporting requirements in international markets based on their activities outside the United States.

[7] *See* RFI, *supra* note 2, at 3931-32.

[8] For example, firms that execute interest rate swaps might have reporting obligations under CFTC rules. Broker-dealers that trade U.S. Treasury ETFs over-the-counter must satisfy SEC reporting obligations for those transactions. Trading platforms for U.S. Treasury futures, swaps, and ETFs must comply with reporting obligations imposed by the CFTC and SEC.

We recommend that Treasury coordinate its efforts through the Inter-Agency Working Group for Treasury Market Surveillance ("IAWG").[9] We also recommend that Treasury undertake coordination efforts on a global basis to harmonize, as much as possible, reporting requirements for Treasury securities with requirements imposed by non-U.S. regulators to improve data quality and avoid inconsistent reporting requirements for cross-border transactions.[10] Regulatory coordination will enhance the ability of Treasury, as well as other regulators, to conduct more comprehensive analysis and surveillance of trading in the Treasury markets by obtaining a broader view of these integrated markets, and increase regulators' ability to obtain higher quality and more consistent data. A coordinated rulemaking effort will help minimize compliance costs for market participants, to the extent they can utilize existing reporting infrastructures and requirements to meet any new reporting obligations that Treasury may impose. The coordination we propose also would allow Treasury to draw lessons from other regulators' efforts to develop and implement reporting systems in other financial markets.

2. Centralized vs. Decentralized Reporting Model

In designing any reporting regime for Treasury market cash transactions, Treasury will also need to consider whether to adopt a centralized or decentralized model of reporting. Treasury could obtain consistency with other regulators using either model.

In a centralized reporting model, reporting parties make all reports to a central repository. For example, TRACE serves as a central repository for data about the U.S. corporate bond market. A decentralized reporting model, in contrast, permits reporting parties to submit transaction reports to one of several authorized trade repositories charged with accepting this information and supplying it to relevant authorities. Rules for reporting swaps in the U.S. and Europe follow the decentralized model.

The choice between a centralized reporting model and a decentralized one could significantly affect the usability of data reported to Treasury, at least initially. In a decentralized model, Treasury would need to devote resources to consolidate and, potentially, normalize reports stored in different locations, while a centralized reporting model likely would produce more consistent data immediately. For this reason, Treasury may find a centralized model more efficient. Having a single repository for trade information also would increase the likelihood of having data provided to Treasury in a uniform and consistent format. Importantly, the choice between a centralized and decentralized reporting model has little bearing on the substance of applicable reporting requirements. We believe Treasury could and would need to harmonize substantive reporting requirements with those of other regulators, regardless of which model it adopts.

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[9] The IAWG consists of staff from Treasury, the Board of Governors of the Federal Reserve, the Federal Reserve Bank of New York, the CFTC, and the SEC.

[10] The International Organization of Securities Commissions may be an appropriate forum for such coordination.

3. Treasury Must Maintain the Security of any Data it Collects

Treasury should address how it would maintain the security of the information collected pursuant to any new reporting requirements for Treasury securities and the extent to which such information will be made accessible to any parties other than the Treasury. Cyber criminals will have every incentive to target trade repositories storing immense volumes of presently unavailable data on the cash Treasury market and the parties who participate in this market. A data breach could compromise critical business information, including, potentially, position and trading information for some funds.

Treasury must ensure that it is prepared to protect this sensitive data before it requires reporting of cash market Treasury transactions. At a minimum, Treasury should retain an expert third-party to test and verify the capabilities of any data repository for these transactions. Before data is provided to other parties, including other regulatory agencies, the third-party expert should assess the risks of providing data and Treasury should address the risks.

B. Determining Who Should be Subject to any Reporting Obligation

1. Only Market Intermediaries Should Report

ICI urges Treasury to limit reporting obligations to dealers and other market intermediaries and not to require reporting of Treasury cash market transactions by funds or other investors. Although trading in the Treasury cash market occurs across a diverse set of venues and models of execution, virtually all trades involve a dealer or PTF on at least one side and a significant portion of trading occurs on trading platforms.[11] These intermediaries are in the best position to report Treasury cash market transactions, due to the trading data to which they have access as a result of their central role in the market, and their existing infrastructure for reporting transactions in other markets.

Current reporting regimes in the fixed income and derivatives markets rely heavily on reporting by dealers.[12] Dealers in these markets have built reporting systems and established processes designed to ensure that they make accurate and timely reports. The interconnectedness of the dealer community also supports designating dealers as reporting parties. Dealers regularly interact with a wide range of counterparties and transact in a variety of venues. To operate in this capacity, dealers have developed

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[11] *See* RFI, *supra* note 2, at 3928 ("In the Treasury cash market, customers, also referred to as end users, have not historically traded directly with other end users.").

[12] For example, only FINRA members (SEC-registered broker-dealers) incur reporting obligations under FINRA's TRACE system. FINRA Rule 6730. Similarly, CFTC and SEC rules requires dealers to report nearly all bilateral transactions in the swap markets. *See* 17 CFR 44.3(a)(3) and 45.8 (CFTC swap data reporting requirements); 17 CFR 240.901(a)(ii) (SEC requirements for reporting security-based swaps).

systems to receive and send information to a wide range of market participants. Requiring dealers to build infrastructure to communicate with a trade repository for Treasury transactions, when they already report regularly to other trade repositories, would not impose a significant burden on these market participants.

Trading platforms also generally are well-equipped to report transactions to regulators and are most efficiently placed to provide data to regulators for cash market Treasury transactions that occur through their systems. Regulators have recognized that trading platforms have immediate and direct access to information concerning transactions executed on their markets.[13] Trading platforms also maintain robust communication networks with a wide range of market participants. These venues can leverage their existing capability to gather and transfer data to meet regulatory needs in addition to fulfilling their commercial objectives. Presently, swap execution facilities, securities and futures exchanges, and alternative trading systems all have regulatory reporting duties and capabilities. Similarly, Treasury should require platforms that facilitate the execution of cash market Treasury transactions to report these transactions. Such a requirement would provide Treasury with complete information about platform-executed cash market Treasury transactions.

In addition, as the RFI acknowledges, other intermediaries, known as PTFs, participate actively in the Treasury cash markets. These intermediaries account for a majority of trading in both the futures and interdealer Treasury cash markets.[14] The RFI notes that a PTF "deploys proprietary automated trading strategies, low latency typically key element of trading strategies, may be registered as a broker or dealer but does not have clients as in a typical broker or dealer business model."[15] Put differently, PTFs specialize in rapidly processing and acting on information. They quote and trade Treasury securities throughout the day and depend on fast and reliable communication with a variety of market participants. These characteristics of PTFs make them ideally situated to report transactions—PTFs employ trading strategies that require heavy investment in communication capabilities that they also can effectively use to transmit regulatory reports to trade repositories.

In contrast to intermediaries, funds and other investors are not appropriate reporting parties in the Treasury cash markets. Unlike intermediaries, funds and other investors would need to expend

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[13] *See* Securities and Exchange Commission, *Regulation SBSR—Reporting and Dissemination of Security-Based Swap Information; Proposed Rule*, 80 Fed. Reg. 14740, 14748-49 (Mar. 19, 2015), *avail. at* https://www.gpo.gov/fdsys/pkg/FR-2015-03-19/pdf/2015-03125.pdf.

[14] RFI, *supra* note 2, at 3298.

[15] *Id.* at n.2.

significant time and resources to build out their systems to accommodate reporting obligations.[16] This would be costly and operationally burdensome for funds. Moreover, placing reporting obligations on funds and other investors would not enhance the scope of transactions visible to regulators or improve the quality of the data that is available. Dealers, platforms, and other intermediaries are the logical reporting parties for the reasons discussed above, and customers have not historically traded with each other in the Treasury cash market.[17] Treasury cash market transactions involving funds and other investors would be fully captured by intermediary reporting. Expanding reporting to funds and other investors would be inefficient and unjustified. We therefore recommend that Treasury not propose reporting obligations for funds and other investors.

2. Identifying Market Intermediaries for Reporting Purposes

To implement any reporting requirements for Treasury cash market dealers and other intermediaries, Treasury should propose such regulations as are necessary to identify these critical intermediaries. Under existing law, Treasury shares jurisdiction over intermediaries with the SEC, federal bank regulators, and FINRA. We encourage Treasury to coordinate with these other regulators, as appropriate, to define Treasury cash market intermediaries. We believe that the RFI provides accurate descriptions of the types of counterparties that provide dealing and other intermediation services in the Treasury cash market and urge Treasury to use these concepts to develop and implement a reporting regime for the Treasury cash market.[18]

Treasury asks whether the identification of registered market participants should be "normalized" across U.S. Treasury cash and futures transactions. Although the RFI does not explain which entities would be considered "registered market participants" with respect to Treasury market activities, we support identifying dealers, PTFs, and trading platforms, as these market participants are highly interconnected with other market participants and consequently participate in nearly all transactions in the Treasury cash markets. If Treasury determines that it is appropriate to adopt normalized identifiers for registered market participants, we urge Treasury to rely on existing identifiers and not to create new identifiers.[19] Creating new identifiers to refer to financial entities that already have identifiers will unnecessarily create compliance burdens, operational difficulties, and opportunities for confusion.

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[16] *See* Letter from Karrie McMillan, General Counsel, Investment Company Institute, to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, dated January 18, 2011 (explaining funds' limited ability to report security-based swap transactions).

[17] *See* RFI, *supra* note 2, at 3928.

[18] *See id.* at 3928, nn.1-3 and associated text.

[19] One example of an existing identifier is the legal entity identifier that many intermediaries have obtained in connection with their swap market activities.

C. Treasury Should not Require Reporting of Allocations

As discussed above, any proposal by Treasury for data reporting should be defined by Treasury's stated objectives in seeking Treasury market data, and include a description of how Treasury intends to use various elements of reported data. We recommend, however, that any reporting obligations proposed by Treasury not apply to fund managers' internal allocations of bunched orders of Treasury securities.[20]

Bunched orders and allocations provide an efficient way for an asset manager to execute orders for more than one fund at a particular time. In the context of Treasury securities, for example, an asset manager might aggregate all long orders for a particular issue into a single bunched order that it would execute with a dealer. The asset manager would allocate portions of the executed bunched order to each fund that requested exposure to that issue. Consistent with its fiduciary duty to seek best execution for its clients, the asset manager places a bunched order so that the advised funds that participate in the bunched order receive an execution at the same price and at the same time.[21] Executing the transaction in this manner is more efficient and lowers costs for fund shareholders.

While we expect Treasury may propose a reporting obligation for the dealer to report the terms of the bunched order that was placed in the market, there is no need to require reporting of the internal allocation of that bunched order by the fund manager. The internal allocation has no market impact, and reporting would be inconsistent with practice in certain other cash markets.[22] Furthermore, internal allocation decisions reflect confidential arrangements between an asset manager and the funds it advises. They do not reflect new or price-forming transactions and they contain highly sensitive information about an asset manager's trading strategies and execution methodology. Moreover, neither the asset manager nor its advised fund is likely to have reporting infrastructure in place, so requiring allocations to be reported could impose a significant burden on the asset management industry without providing any clear benefit.

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[20] Market participants use different terminology when describing the process that asset managers use to execute a trade for multiple customers. For purposes of this letter, the term "bunched order" refers to any executed order that is allocated among more than one customer of an asset manager according to the instructions of that asset manager.

[21] *See SMC Capital Inc.*, SEC No-Action Letter (pub. avail. Sept. 5, 1995), *avail. at* https://www.sec.gov/divisions/investment/noaction/smccapital090595.htm.

[22] TRACE does not require reporting of internal allocations in the corporate bond market. *See* Reporting of Corporate and Agencies Debt Frequently Asked Questions, Question 1.51, *available at* http://www.finra.org/industry/faq-reporting-corporate-and-agencies-debt-frequently-asked-questions-faq#1-51. Equity market transaction reporting practices also do not encompass internal allocations. *See* Trade Reporting Frequently Asked Questions, Question 303.12, *available at* http://www.finra.org/industry/trade-reporting-faq#303.

III. Public Access to Data on the U.S. Treasury Cash Market

Section IV of the RFI seeks input on whether additional reporting of Treasury market transaction data to the public would be beneficial, including questions regarding the appropriate level, timing, and granularity of any such reporting. The premise of the RFI is that the extent of publicly available information on the U.S. Treasury markets is substantially more limited than that available for many other major asset classes.[23] As participants in the Treasury cash market, funds have a strong interest in ensuring the integrity and quality of this market. While we recognize that public transparency might bring certain benefits to the Treasury cash market, we believe that this transparency must be carefully balanced against the risk of it reducing liquidity and impairing market quality to the detriment of the Treasury market and its participants. We explain our suggestions for accomplishing these objectives below.

A. Analyzing Whether Public Disclosure is Appropriate

We recognize that no market-wide public disclosure requirements currently apply to the Treasury cash market. It is not possible for Treasury, or the industry, however, to fully assess how increased transparency would affect this market based on the information provided in the RFI. The RFI focuses on the depth, liquidity and functioning of the Treasury markets.[24] Disclosing data publicly about the Treasury cash market before Treasury has had an opportunity to evaluate market data and assess the implications of public disclosure of a portion of this data could diminish the depth, liquidity and functioning of this critical market, resulting in harm to funds and other market participants.

We therefore recommend that Treasury approach the public disclosure of Treasury cash market data in two stages: First, Treasury should limit any reporting to non-public reporting to Treasury. Second, after Treasury has obtained data over a sufficient period of time, Treasury should consider the following factors to inform any proposed public dissemination requirements: (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.

We are concerned that the RFI speculates as to the benefits of public disclosure of trading activity in the U.S. Treasury market, without providing any support for these assertions. The RFI states that making more data publicly available about the Treasury cash market "could" have a variety of positive effects, including supporting investor confidence and the liquidity of the market, improving efficiency, reducing transaction costs, enhancing fairness, improving risk management practices and

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[23] RFI, *supra* note 2, at 3933.

[24] *Id.* at 3929.

encouraging participation by new entrants.[25] The RFI further speculates as to the reasons greater operational transparency "may be desirable . . ." Yet the RFI does not provide any support for the validity of these statements, which we believe would very much depend on the factors outlined above, and which Treasury should determine empirically.

B. Block Trades

To the extent that, at a future date, Treasury determines it is appropriate to consider the possibility of public disclosure of certain Treasury cash market data, it should incorporate block trade thresholds into any such disclosure regime to protect liquidity in this critical market. Treasury should use the data it has received for regulatory reporting purposes to propose block trade thresholds at an appropriate level. Given the uneven liquidity in the Treasury cash market, we urge Treasury to make block trade threshold determinations based on the liquidity available in particular Treasury issues rather than on a market-wide basis. For each issue, we urge Treasury to balance the perceived benefits of disclosure against the potential for an inappropriately high block trade threshold to harm the market itself.

1. Background

In certain circumstances, transparency may inhibit market participants' willingness to transact. Treasury acknowledges this tension between transparency and liquidity in the RFI and suggests that large trades, especially for older, off-the-run issues, "could be executed away from platforms with pre-trade transparency" and "reported to the marketplace with some delay."[26] We applaud Treasury's recognition of the need to appropriately account for these transactions, known as block trades, in any rules that contemplate increasing transparency in the Treasury cash market.

Block trades enable funds, on behalf of their shareholders, to transact large dollar volumes of Treasury securities while minimizing the price impacts of these transactions. The ability to transact in block size is critical to funds obtaining desired exposure on fair terms in a reasonable period of time.

Funds and their shareholders, as well as the Treasury markets generally, may be negatively affected by premature disclosure of transaction data about a block trade. Disclosing block trade data too quickly may result in severe and unwarranted price movements. Providing real-time information

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[25] *Id.* at 3933.

[26] *Id.* We note that today no requirement exists to execute any cash market Treasury transaction on a platform with pre-trade price transparency. We believe that public reporting requirements must provide reasonable accommodations for block trades, regardless of the manner in which counterparties execute these transactions. If the language quoted above suggests that Treasury is contemplating imposing at this time a platform-trading requirement for certain Treasury securities, we object strongly to this idea for the reasons described in Section I, *supra*.

about block trades also could enable other market participants to piece together information about a fund's holdings or trading strategy and can lead to front running of a fund's trades, adversely impacting the price of these trades to the detriment of fund shareholders.

2. Establishing Appropriate Block Trade Thresholds

We urge Treasury to utilize the data it would receive from any regulatory reporting regime to analyze the liquidity of the Treasury cash market and propose block thresholds that are calibrated to preserve liquidity in all parts of this market. We believe an exception for block trades must include two elements to ensure public dissemination of these trades does not harm the market. First, Treasury should set the minimum size of a block trade in a manner that accounts for the liquidity profile of the traded security. To that end, we expect that on-the-run issues could support higher thresholds than off-the-run issues. Second, Treasury should shield each block trade from public dissemination for long enough to permit market participants to hedge their exposure and prevent price distortions in the market.

Treasury should establish block thresholds that are tailored to the liquidity characteristics of the particular security being traded rather than trying to use a one-size-fits-all threshold. While the Treasury market is often referred to as "the deepest and most liquid market in the world,"[27] the market for on-the-run issues of Treasury securities exhibits significantly more liquidity than the market for their off-the-run counterparts. In general, markets with greater liquidity can support higher block thresholds than less liquid markets, but a large enough trade would distort prices in even the most liquid markets. Conversely, some markets may have such sparse liquidity that prompt dissemination of a trade of any size could impair liquidity.

Treasury also should ensure that all data regarding block trades is delayed for a sufficient time to allow the counterparty to a block trade to hedge its position. Failing to provide an adequate reporting delay for block transactions would impair liquidity in the Treasury cash market to the detriment of funds and their shareholders. Consistent with our views on block trade thresholds, we believe Treasury should carefully analyze market data to determine an appropriate time delay for block trades, which may be significant for older, off-the-run Treasury securities that trade infrequently and therefore may be inherently difficult to hedge.

IV. Recommended Compliance Periods

We urge Treasury to provide all market participants sufficient time following the adoption of any final rules to implement the required changes. As discussed above, in establishing any reporting regime, Treasury first will need to address the critical issue of ensuring that those intermediaries active

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[27] RFI, *supra* note 2, at 3928.

in the Treasury cash markets will be subject to a reporting obligation. Treasury may need to coordinate with other regulators to ensure that intermediaries, including PTFs, are registered, to the extent necessary to ensure that they report the transactions they execute. Treasury should not begin implementation of any reporting obligations until it has resolved these issues. An implementation time frame should also reflect the two-step approach we recommend Treasury take to regulatory and public reporting. Finally, it is critical that Treasury coordinate its proposed compliance dates with other domestic and global regulators to take into account, as relevant, market participants' other reporting obligations.

Treasury should consult with reporting parties to ensure an adequate compliance period for regulatory reporting rules. After Treasury fully implements any regulatory reporting requirements, it should focus on assessing whether to adopt public disclosure requirements. We recommend that Treasury propose and finalize any public reporting requirements after carefully analyzing data it obtains from the non-public reporting process. Treasury should ensure that it obtains data to inform this process over a time period that is long enough to provide a reliable basis on which to assess conditions in the Treasury cash market. We recommend that Treasury solicit comment on the appropriate implementation timeframe for a public reporting requirement in connection with any proposed rules in this area.

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We appreciate the opportunity to provide input on Treasury's RFI regarding the evolution of the Treasury market structure. We hope that our observations and comments are helpful as you analyze the Treasury markets and consider whether changes to the market structure are warranted, including whether new regulation potentially would be appropriate. Please let us know if we and our members may be of assistance in this process in any way. We would be glad to meet with you to discuss our comments or answer any questions you may have. You may contact me at (202) 326-5815, Sarah Bessin at (202) 326-5835, or George Gilbert at (202) 326-5810.

Sincerely,

/s/ David W. Blass

David W. Blass
General Counsel