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David R. Pearl
Office of the Executive Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Re: Notice Seeking Public Comment on the Evolution of the Treasury Market Structure [Docket No. TREAS–DO–2015–0013]

Dear Mr. Pearl:

Guggenheim Partners Investment Management (GPIM or Guggenheim)[1] appreciates the opportunity to comment on the U.S. Department of Treasury's (Treasury) request for information on the Evolution of the Treasury Market Structure (RFI).[2] The U.S. Treasury market[3] is the deepest and most liquid market in the world,[4] and GPIM supports Treasury's efforts to monitor the health of this market in order to ensure its continued depth, liquidity, efficiency and proper functioning. Treasury seeks comment on a range of issues regarding participants' experiences with the current structure of the Treasury market and its liquidity; in addition, Treasury seeks feedback on appropriate data collection and public transparency with respect to such data.

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1 Guggenheim Partners Investment Management, LLC is an investment adviser registered with the SEC. Our institutional clients include insurance companies, public sector and corporate pension plans, foundations, endowments and other institutions around the world. The views and information presented herein reflect the views GPIM and not necessarily those of Guggenheim Partners, LLC.

2 *Notice Seeking Public Comment on the Evolution of the Treasury Market Structure*, 81 Fed. Reg. 3927 (Jan. 22, 2016).

3 As used herein, the U.S. Treasury market means the secondary market trading of U.S. Treasury securities, futures and options on Treasuries, and securities financing transactions in which Treasury securities are used as collateral, either in the aggregate or as individual products as the context provides.

4 Joint Staff Report: The U.S. Treasury Market on October 15, 2014 (July 13, 2015) (Joint Staff Report), pg. 8.

I. Observations on the Market Structure and Liquidity of the Treasury Market

GPIM supports Treasury's efforts to understand how the market structure and liquidity may be changing in light of the importance of the Treasury market for our investors. As an asset manager, the health of the Treasury market plays a critical role in our portfolio construction and portfolio management processes. Treasury securities allow investors to manage interest rate risk and also play a key role in asset managers' liquidity risk management framework. Moreover, because Treasuries are backed by the full faith and credit of the U.S. government, they generally exhibit a negative correlation to risky assets, which results in greater product diversification and hedging benefits. Treasuries and the Treasury yield curve are also a benchmark by which valuations of other investments are gauged. Lastly, Treasuries are a common form of eligible collateral used by asset managers in an extensive range of financial transactions. We anticipate greater demand for Treasuries as a form of eligible collateral given new regulatory requirements, such as the new margin rules for swaps, the U.S. Securities and Exchange Commission's (SEC) proposed liquidity rule, the new SEC derivatives rule, and other relevant rules and regulations.

We have observed dislocations in the Treasury market in recent years that, taken together, indicate that liquidity risk premiums have increased and liquidity overall has deteriorated. This can be observed in dislocations in less-liquid and more balance sheet-intensive Treasury securities, which have cheapened versus more-liquid issues, as enumerated below.

- Less-liquid off-the-run Treasuries have cheapened versus more-liquid on-the-runs.

- Less-liquid TIPS have cheapened versus more-liquid nominal securities. A large portion of the narrowing observed in TIPS inflation breakevens can be attributed to the substantial decline in oil prices since mid-2014, but we believe that deteriorating TIPS liquidity has also been an important factor.

- Less-liquid coupon STRIPS have cheapened versus more-liquid principal STRIPS. The pre-financial-crisis spread between longer maturity coupon and principal STRIPS traded in a 3 - 5 basis points range on average. This average spread is now 10 -15 basis points demonstrating how much coupons STRIPS have cheapened relative to principal STRIPS.

- Cash Treasuries have cheapened against less balance sheet-intensive swaps (i.e. swap spreads have tightened). That is, we have observed that swap spreads in benchmark 10-year swaps, which traded in a positive range of 10 - 50 basis points before the financial crisis, have recently started to trade at negative levels. While there are other factors that have contributed to this shift, the fact that cash Treasury bonds are cheapening relative to Libor and OIS swaps is a key element of the change.

The increase in liquidity risk premiums in the Treasury market has coincided with a decline in Treasury repurchase agreement (repo) volumes and trading volumes for cash Treasuries in recent years. These declines are especially stark when measured against the growth since 2008 in the outstanding stock of marketable Treasuries held by the public. One factor that we believe is contributing to dislocations in the Treasury market is the post-crisis regulatory framework applicable to the dealer subsidiaries of large bank holding companies. Specifically, new rules such as the Supplementary Leverage Ratio, Liquidity Coverage Ratio, Net Stable Funding Ratio and G-SIB capital surcharge target leverage and short-term wholesale funding, which are the lifeblood of a liquid Treasury market. These regulations have increased the capital requirements and funding costs of dealers' Treasury and repo desks, thereby reducing the profitability of these businesses. We have observed that Treasury dealers are less willing to hold inventory, particularly over quarter-end, due to increased capital requirements. With the imposition of the Basel leverage ratio and other rules, large bank-affiliated dealers engaged in the repo market have also been less willing to provide repo financing to customers due to the higher capital charges they face. This is problematic because we, and other end users, rely upon the dealer infrastructure to provide liquidity to support trading across the yield curve in U.S. Treasuries. A less efficient Treasury yield curve affects relative value decisions across the broad range of fixed income securities in which we invest. Moreover, as the Treasury market becomes less efficient, borrowing costs will increase for the government as well as private borrowers.

II. Trading and Risk Management Practices

We appreciate Treasury's interest in trading and risk management practices. However, we caution against implementing changes to market structure prior to collecting more market data and conducting further analysis on the Treasury market. Treasury poses a question as to whether risk management standards that govern other markets, such as futures, should be adopted in the cash Treasury market. While we support Treasury's goal of protecting and fostering liquidity, we are reluctant to conclude that risk management practices that currently operate in other markets, such as futures, should apply to the cash Treasury market. Instituting order price and quantity controls, circuit breakers, kill switches, and similar controls may in some circumstances impede price discovery and reduce liquidity. The Treasury market "ecosystem" is complex, with a primary and secondary market, products (such as repos, futures and derivatives) that are linked, and with a range of market participants; therefore, careful study must precede any risk management system in order to consider the impacts on multiple markets, products and participants. As further discussed below, increased regulatory reporting will help Treasury and other regulators assess the functioning of the markets and the behavior of its key participants so that proper risk management controls may be implemented.

Treasury has asked whether we, as an asset manager, would benefit from access to other platforms, such as the interdealer market. Some asset managers may already be active on this platform or other platforms, either directly or through sponsors; however, GPIM is not. We believe that we may benefit from access to such platforms, which may enhance liquidity by potentially introducing new market participants, increasing price transparency and providing depth to the market.

Treasury has also asked whether there would be support for a central counterparty clearing house (CCP) platform for the repo market. As discussed above, we have observed that dealers are providing less liquidity in the repo market. We support a move to repo clearing, which should free up additional dealer repo balance sheet capacity. CCPs could also introduce a structure that would decrease the counterparty risk that exists in a bilateral market, which may enhance liquidity and enable the management of default risk through mutualization or other default management programs. In addition, an expanded cleared market for repos may encourage more market participants and therefore promote liquidity.

Repo clearing would also provide additional transparency, as it would capture data beyond what is currently reported by the major clearing banks. The clearing of repos may require that repos become more standardized and may therefore enhance the quality of data available to the official sector and permit the official sector to monitor the repo market more efficiently. Before any form of rulemaking requiring the clearing of repos is introduced, however, we strongly urge Treasury to assess the impact of clearing on the repo and cash markets.

III. Data Available to the Official Sector

A well-functioning Treasury market requires appropriate oversight. The Treasury market is a public good,[5] and, as mentioned above, it is in the best interest of our investors to ensure the heath, resiliency and stability of the Treasury market. As such, we support Treasury's efforts to collect adequate data on the Treasury market. Timely and comprehensive data across products and market segments would provide the official sector with a means to monitor the health of the market. Increased information about transactions and major liquidity providers may allow the official sector to identify and prevent inappropriate concentrations of risk and the potential for dislocations. Data collected could also be useful to Treasury's efforts to optimize the composition of its debt issuance portfolio, thereby benefiting taxpayers and the public.

Treasury should consider (i) the most efficient and least intrusive means to collect data, and (ii) the types of entities best suited to provide such data. Reporting requirements should leverage off of data from other agencies and data repositories in order to minimize compliance burdens and costs which may be passed along to investors. We support the staffs of Treasury, the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York, the SEC, and the U.S. Commodity Futures Trading Commission (collectively, Joint Staff) completing an information sharing agreement for the collective use of data by the Joint Staff. We also support the Inter-Agency Working Group for Treasury Market Surveillance (IAWG) continuing its efforts to strengthen interagency coordination.

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[5] As the Joint Staff Report states, "superior liquidity ... accrues lower cost of borrowing to Treasury thus benefitting taxpayers, it allows U.S. Treasury securities to act as reliable interest rate benchmarks for a wide range of private market transactions, it provides a reliable means for market participants to transfer interest rate risk on a substantial scale, and it is supportive of the implementation of U.S. monetary policy." Pg. 8.

GPIM endorses, at least initially, a data repository designed exclusively for and to be utilized by regulators, as further discussed below. To the extent Treasury seeks to design a reporting regime, it may be prudent to utilize existing reporting structures so that, should Treasury choose to disseminate information to the public, the infrastructure would be easily adaptable to public dissemination. Utilizing an existing model would enhance data quality for regulators, decrease reporting complexity and compliance costs for market participants, and leverage off of significant data quality enhancements learned from past practices.

In general, we observe two options for the collection and storage of data: (i) the Financial Industry Regulatory Authority's (FINRA) Trade Reporting and Compliance Engine (TRACE) model or (ii) the swaps data repository (SDR) model. The TRACE model, utilized in the corporate bond market segments, may be useful because it features a centralized database, current data standards and existing infrastructure that market participants may leverage. However, there is no competition on price or other features, and therefore no incentive for innovation. The SDR model, in contrast, has multiple participants and therefore may lead to innovation and price competition. However, the SDR model is newer, data standards are still evolving, and experience with the use of an SDR model in the swaps market has revealed data formatting inconsistencies across various entities, which has led to difficulties in aggregating data at the regulator level. GPIM does not have a preference with respect to the model, but encourages Treasury to study the relative benefits and costs of both. Notwithstanding our lack of preference, we suggest that data be subject to a standardized format that is consistent among all reporting parties in order for such data to be useful to regulators. In addition, any model utilized in the context of public dissemination should be subject to the concerns noted in Section IV below.

From a product scope perspective, we suggest obtaining information related to transactions in bills, notes, bonds, FRNs, TIPS and STRIPS (including on-the-run and off-the-run issues), Treasury futures, Treasury repos and securities lending.

Where there is missing information not currently available from other agencies and data repositories, Treasury should rely on principal trading firms (PTFs), dealers and trading platforms to provide such information. These entities have the best visibility into market transactions and have an existing reporting infrastructure and associated operational and human capital expertise. Asset managers are generally leaner and do not have the appropriate infrastructure and therefore they, and other end users, should be exempt from reporting requirements.

We would like to underscore that the reporting, receipt, warehousing, and maintenance of U.S. Treasury market information by Treasury or other government agencies must be conducted by a means that carefully protects such information from cybercrime or other data security risks.

IV. Dissemination to the Public

GPIM supports the publication by Treasury of broad-based, general data about the liquidity, depth and functioning of the Treasury market. We believe that the release of aggregate data would help inform market participants such as Guggenheim of important trends in Treasury and repo market activity, which would benefit the investors for which we are a fiduciary.

While Guggenheim supports Treasury's objective of increasing transparency, we believe that Treasury should exclude trade-level data from public dissemination, as the disclosure of this data could have adverse consequences for the functioning of the Treasury market. Publication of certain data may diminish the depth and liquidity of the market and could affect market structure by reducing the willingness of liquidity providers to participate to the same degree. We therefore believe that Treasury should issue a separate request for information on the subject of public dissemination only after data has been collected by (and made available exclusively to) the official sector for a period of time.

However, if detailed data were to be released to the public pursuant to new rule-making in this area, we would recommend (i) protecting counterparty identification details; (ii) including thresholds and rounding for sizes for reporting; and (iii) including delays for transactions.

Protecting counterparty identification. We strongly urge Treasury to carefully consider a means to protect counterparty identification information and trade details. We believe that Treasury should not disseminate information that would be considered proprietary information and that may divulge trading strategies, trades or positions and particular trading counterparties. Similarly, post-trade transaction reporting should not include allocation information, which we believe may inappropriately expose trading structures and counterparties.

Thresholds and rounding for size of transactions. In addition, transactions over a certain size should be reported to the public only in the form of a range or size. As with other markets, block trade thresholds should be tailored to the specific attributes of a security, and should vary based on tenor, overall liquidity, trading frequency and other relevant criteria. Products with similar terms but different tenors, for example, may trade in significantly different sizes and with different levels of liquidity; a trade that is a block in one tenor may not be a block in another.

Delays for transactions. Transactions should be subject to a delay in dissemination. Providing real-time information risks the possibility that market participants could piece together information about a fund's holdings or trading strategy. This is particularly true with the dissemination of block trade information where participants may be front-run by opportunistic traders, thereby driving up transaction costs for the dealers and widening bid-ask spreads for their customers. A delay should be long enough to prevent counterparty identification information and price distortions and to allow participants to hedge exposures.

GPIM values the opportunity to provide comments and recommendations on Treasury's RFI on Treasury market structure. We would welcome the opportunity to discuss our comments in greater detail with Treasury staff. If the staff has any questions, please do not hesitate to contact Brian Smedley at 212-823-6586.

Sincerely yours,

Guggenheim Partners Investment Management, LLC

By:

Kevin Robinson
Attorney-in-Fact

Cc: Antonio Weiss, Counselor to the Secretary