

# Managed Funds Association

The Voice of the Global Alternative Investment Industry

Washington, D.C. | New York



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**Via Electronic Mail:** [govsecreg@fiscal.treasury.gov](mailto:govsecreg@fiscal.treasury.gov)

Brian Smith  
Deputy Assistant Secretary for Federal Finance  
Department of the Treasury  
1500 Pennsylvania Avenue NW  
Washington, DC 20220

**Re: Notice Seeking Public Comment on Additional Transparency for Secondary Market Transactions of Treasury Securities, Docket No. TREAS-DO-2022-0012**

Dear Mr. Smith:

Managed Funds Association<sup>1</sup> (“MFA”) appreciates the opportunity to provide comments to the Department of the Treasury (“Treasury”) on the above-captioned notice seeking public comment (the “RFI”).<sup>2</sup> Through the RFI, Treasury seeks input from market participants on additional post-trade transparency of data regarding secondary market transactions of Treasury securities, including potential benefits and risks of several examples of potential ways to build on existing public transparency.

MFA members are some of the most significant and active investors and traders in the U.S. securities and derivatives markets. Our members transact in the U.S. Treasury markets—both the futures and cash markets. Investors use these markets for a number of reasons depending upon their strategies, including for investment, to hedge risk from other investment products, as collateral, and to manage portfolio risk. Our members value these markets and want to ensure that they are efficient, fair, liquid, transparent, and low-cost for investors. As such, we and our members have a strong interest in regulatory developments in the Treasury securities markets, including with respect to public transparency efforts. In this regard, over the years, we have submitted comment letters to Treasury and other regulators in response to requests for comment and other releases concerning the Treasury securities markets.<sup>3</sup>

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<sup>1</sup> Managed Funds Association (“MFA”) represents the global hedge fund and alternative asset management industry and its investors by advocating for regulatory, tax, and other public policies that foster efficient, transparent, and fair capital markets. MFA’s more than 150 member firms collectively manage nearly \$2.6 trillion across a diverse group of investment strategies. Member firms help pension plans, university endowments, charitable foundations, and other institutional investors to diversify their investments, manage risk, and generate attractive returns over time. MFA has a global presence and is active in Washington, Brussels, London, and Asia. [www.managedfunds.org](http://www.managedfunds.org).

<sup>2</sup> Department of the Treasury Docket No. TREAS-DO-2022-00012, 87 Fed. Reg. 38259 (June 27, 2022), available at: <https://www.govinfo.gov/content/pkg/FR-2022-06-27/pdf/2022-13540.pdf>.

<sup>3</sup> See MFA Comment Letter Responding to Treasury Market Practices Group White Paper on Clearing and Settlement in the Secondary Market for U.S. Treasury Securities (Nov. 28, 2018), available at:

We and our members have supported—and continue to support—Treasury’s efforts to appropriately expand the public dissemination of information about transactions in the Treasury securities market.<sup>4</sup> Properly calibrated transparency efforts can enhance liquidity, lower costs for investors and encourage greater participation in, and foster more efficient, Treasury securities markets. At the same time, however, inappropriately tailored transparency requirements could have the opposite effect, particularly with respect to markets (such as those for certain off-the-run Treasury securities) that are already relatively less liquid and have fewer participants than other markets (such as the on-the-run Treasury securities market). Some members are concerned that public dissemination of transaction-level data about Treasury market transactions, if not properly calibrated, risks publicly identifying large investors and may result in front-running and other predatory trading practices, as well as have other unintended consequences.<sup>5</sup> For this reason, we believe the potential benefits of increased public transparency in the Treasury market must be carefully weighed against the potential risk that transparency measures enable abusive trading practices, particularly with respect to the less liquid part of the Treasury market, such as off-the-run Treasury securities.<sup>6</sup>

We therefore appreciate the fact that Treasury, historically, “has taken a gradual approach to additional public transparency based on feedback from a range of Treasury market participants.”<sup>7</sup> We believe that the correct approach is one that is gradual and calibrated, and that recognizes that Treasury securities with different characteristics should be subject to different requirements. We further believe that Treasury, while taking into account the particular characteristics of the Treasury securities market, should leverage the efforts of other regulators, such as the Commodity Futures Trading Commission (“**CFTC**”) with respect to its real-time public reporting regime for swaps and the Financial Industry Regulatory Authority’s (“**FINRA**”) Trade Reporting and Compliance Engine (“**TRACE**”) reporting regime with respect to certain fixed income securities in setting additional transparency requirements.<sup>8</sup>

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[https://www.managedfunds.org/wp-content/uploads/2020/04/MFA\\_TMPG\\_Whitepaper.pdf](https://www.managedfunds.org/wp-content/uploads/2020/04/MFA_TMPG_Whitepaper.pdf), and MFA Comment Letter Responding to Notice Seeking Public Comment on the Evolution of the Treasury Market Structure Docket No. TREAS-DO-2015-00013 (Apr. 22, 2016), available at: <https://www.managedfunds.org/wp-content/uploads/2020/04/MFA-Treasury-RFI-Final.Appendix-4.22.16-1.pdf>.

<sup>4</sup> See, e.g., *id.*

<sup>5</sup> See, e.g., “Some market participants have expressed concerns regarding the effect of additional public 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. This could in turn adversely affect market liquidity including, but not limited to, bid-ask spread and depth of market and ultimately Treasury’s debt issuance costs.” RFI at 38261.

<sup>6</sup> This risk is heightened by the fact that a significant volume of transactions in U.S. Treasury securities occurs outside the United States and likely will not be subject to a U.S. post-trade transparency regime, potentially giving non-U.S. market participants a competitive advantage over U.S. market participants.

<sup>7</sup> RFI at 38261.

<sup>8</sup> In this regard, we note that looking to transparency regimes enacted in other fixed-income markets (such as corporate bond markets)—including how those regimes distinguish among different types of transactions based on liquidity characteristics and take measures to protect liquidity in larger-sized transactions—will likely be more

## I. Summary

As detailed below, if appropriately calibrated, we generally support the public dissemination of real-time, anonymized, transaction-level information with respect to transactions in the most liquid Treasury securities markets, namely on-the-run Treasury securities, first and second old off-the-run Treasury securities, and Treasury securities subject to when-issued transactions, in each case subject to an exception for inter-affiliate transactions.<sup>9</sup> Such a post-trade transparency regime should, as detailed in Part III, include public dissemination delays for block trades and volume caps for larger trades, which are calibrated (and periodically recalibrated) in a manner designed to avoid undue liquidity impacts. As further detailed in Parts V through VI, the nature and level of information disclosed should address key characteristics of the transactions without compromising the anonymity of market participants. As described in Part VII, we believe that such additional post-trade transparency could be implemented quickly, while minimizing costs to market participants. We also provide comments with respect to certain technical questions raised in the RFI, such as those relating to reporting mechanics.

## II. Comments with respect to distinguishing among different types of Treasury securities.

The RFI correctly observes that, in setting any additional transparency requirements, Treasury “should take into consideration the differences among security types.”<sup>10</sup> In particular, we believe that the liquidity characteristics of the markets in different types of Treasury securities should guide Treasury. In this regard, we propose that Treasury consider three distinct groups of Treasury securities:

- Group 1 Treasury Securities: This group consists of on-the-run Treasury securities.<sup>11</sup> The RFI observes that on-the-run Treasury securities are actively traded and account for, on average, 60% of the weekly volume for trading in all Treasury securities.<sup>12</sup> Subject to our comments below in relation to block trades, we support the implementation of the public dissemination of real-time, anonymized, transaction-level information with respect to transactions in Group 1 Treasury Securities.
- Group 2 Treasury Securities: This group consists of the first and second old off-the-run Treasury securities<sup>13</sup> and Treasury securities subject to when-issued

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useful than considering other markets, such as the equities markets, that have more exchange-based trading, more retail participation, and different liquidity characteristics.

<sup>9</sup> Our members transact in Treasury securities for various reasons, using different investment and trading strategies. The benefit—and potential risk—of introducing post-trade price dissemination of anonymized data on Treasury secondary market transactions will vary from firm to firm.

<sup>10</sup> *Id.*

<sup>11</sup> “On-the-run” refers to the most recently issued fixed-rate nominal Treasury securities of a particular maturity.

<sup>12</sup> RFI at 38261.

<sup>13</sup> “Off-the run” refers to fixed-rate nominal Treasury securities of a particular maturity other than the most recently issued securities. “First old” Treasury securities are the most recently issued fixed-rate nominal Treasury securities

transactions.<sup>14</sup> The RFI notes that off-the-run Treasury securities markets differ from on-the-run Treasury securities markets in a number of ways, including that there tends to be less liquidity and the individual trade sizes tend to be larger.<sup>15</sup> We believe that transactions in Group 2 Treasury Securities should be subject to the same post-trade transparency requirements as Group 1 Treasury Securities, except that, as described below, block trades in Group 2 Treasury Securities should be subject to a longer dissemination delay, minimum block sizes should be smaller, and volume caps should be lower.

- **Group 3 Treasury Securities:** This group consists of all other Treasury securities, including off-the-run Treasury securities other than the first and second olds, floating rate notes, Treasury inflation-protected securities and Separate Trading of Registered Interest and Principal of Securities. We believe that there would be benefits from additional post-trade transparency requirements with respect to Group 3 Treasury Securities, but that more analysis is needed to determine when it would be appropriate to implement such requirements and what the nature of those requirements should be. Accordingly, and consistent with Treasury's commitment to taking a gradual approach based on market feedback, we respectfully submit that Treasury should focus first on implementing any new post-trade transparency requirements with respect to transactions in Group 1 and Group 2 Treasury Securities and then, once it has had a chance to analyze the effects of those measures on those markets, commence another request for comment with respect to transactions in Group 3 Treasury Securities. Such a request for comment should, among other things, ask whether post-trade transparency measures with respect to transactions in Group 3 Treasury Securities should incorporate longer dissemination delays (generally and with respect to block trades) and what would constitute appropriate minimum block sizes and volume cap sizes.

### **III. Comments with respect to requirements for larger transactions.**

The RFI requests comment with respect to whether volume caps or block trade dissemination delays should be incorporated into any transparency requirements and, if so, how those caps and delays should be determined and tailored to different segments of the Treasury securities markets.<sup>16</sup>

As discussed below, both measures will be necessary to ensure an appropriate balance between transparency and liquidity. The potential benefits of public dissemination of real-time, anonymized, transaction-level information must be weighed against the potential harm to market

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of a particular maturity other than the on-the-run Treasury securities and "second old" Treasury securities are the second most recently issued fixed-rate nominal Treasury securities of a particular maturity other than the on-the-run Treasury securities.

<sup>14</sup> "When-issued transactions" refers to transactions made conditionally because the Treasury securities underlying such transactions, although authorized, have not yet been issued.

<sup>15</sup> RFI at 38261.

<sup>16</sup> RFI at 38262.

participants and the vitality of the Treasury market. In order to determine the appropriate balance, Treasury should conduct further analysis with regard to what methodologies to use to set appropriate minimum block sizes, dissemination delays, and volume caps. In addition, regardless of the methodology selected, block sizes, dissemination delays, and cap sizes should be recalibrated on a regular basis, in consultation with market participants, to ensure they are appropriate given changes in market conditions (*e.g.*, lower block or cap sizes may be appropriate during periods of higher volatility, when markets tend to be less liquid).

1. Block trade data dissemination delay

We believe that block trade data should be subject to a dissemination delay. Our members' experience with real-time reporting regimes applicable to other products, such as swaps, reinforces this view. In this regard, we note that the CFTC has accurately explained why block trade data dissemination delays are essential to preserving liquidity in affected markets:

When the [CFTC] adopted [its block trade rules] in 2013, the [CFTC] understood that the publication of detailed information regarding ... block trades could expose swap counterparties to higher trading costs. In this regard, the publication of detailed information about an outsize swap transaction could alert the market to the possibility that the original liquidity provider to the outsize swap transaction will be reentering the market to offset that transaction. Other market participants, alerted to the liquidity provider's large unhedged position, would have a strong incentive to exact a premium from the liquidity provider when the liquidity provider seeks to enter into offsetting trades to hedge this risk. As a result, liquidity providers may be deterred from becoming counterparties to outsize swap transactions if swap transaction and pricing data is publicly disseminated before liquidity providers can adequately offset their positions. If a liquidity provider agrees to execute an outsize swap transaction, it likely will charge the counterparty the additional cost associated with hedging this transaction. In consideration of these potential outcomes, the [CFTC] established the time delays for block trades ... to balance public transparency and the concerns that post-trade reporting would reduce market liquidity. The [CFTC] did so in furtherance of its stated policy goal to provide maximum public transparency, while taking into account the concerns of liquidity providers regarding possible reductions in market liquidity.<sup>17</sup>

We appreciate that Treasury has similar goals with respect to enhancing public transparency while supporting liquidity in the Treasury securities markets. We and our members support these goals as well and note that the ability to execute and hedge block trades is essential to maintaining robust markets in Treasury securities.

We do not have granular recommendations with respect to specific minimum block sizes for particular products or the appropriate dissemination time delay with respect to particular transactions at this time. However, given that markets in Group 2 Treasury Securities are less liquid than markets in Group 1 Treasury Securities, we would expect that longer dissemination

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<sup>17</sup> Real-Time Public Reporting Requirements, 85 Fed. Reg. 75422 (Nov. 25, 2020), available at: <https://www.govinfo.gov/content/pkg/FR-2020-11-25/pdf/2020-21568.pdf> (citations omitted).

delays would be appropriate with respect to block trade reporting for Group 2 Treasury Securities as compared to block trade reporting for Group 1 Treasury Securities. For the same reason, we would expect that lower minimum block sizes would be appropriate with respect to transactions in Group 2 Securities as compared to transactions in Group 1 Securities.

In regard to methodology for determining minimum block sizes and dissemination delays, Treasury could consider the CFTC's approach and methodology to determining appropriate minimum block sizes<sup>18</sup> and dissemination delays<sup>19</sup> with respect to the swaps market.<sup>20</sup> We also think that Treasury should consider other methodologies as well, such as ones based on average trading volumes or average trade size in particular Treasury securities over particular periods of time.<sup>21</sup> We encourage Treasury to gather additional data on the relevant Treasury securities markets, assess how these methodologies would perform against that data, and consult with market participants before proposing any specific minimum block sizes and dissemination delays.

## 2. Volume caps

We believe that publicly disseminated transaction data should be subject to volume caps. The approach taken by the CFTC in the context of real-time swaps reporting is again illustrative. In considering a request to remove cap sizes, the CFTC agreed with a commenter that “caps protect the ability of liquidity providers to manage and hedge any risk exposure without compromising anonymity” and thereby preserve market liquidity.<sup>22</sup> Volume caps will serve a similar purpose with respect to public reporting of transactions in the Treasury securities markets. We also note that TRACE incorporates volume caps with respect to reporting of certain TRACE-Eligible Securities, including certain investment-grade corporate bonds.<sup>23</sup> While we do not have specific recommendations with respect to the appropriate volume caps at this time, we again respectfully submit that Treasury should consider the approaches taken by the CFTC<sup>24</sup> and FINRA, assess how those (and possibly other) methodologies would perform against data for the Treasury securities markets, and consult further with market participants.

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<sup>18</sup> 17 C.F.R. §43.6.

<sup>19</sup> 17 C.F.R. §43.5.

<sup>20</sup> We respectfully note, however, that it would not be appropriate for Treasury to simply adopt the CFTC's methodology without analysis as to the liquidity impact of that methodology, given the differences between the swaps and Treasuries markets.

<sup>21</sup> See, e.g., RFI at 38262.

<sup>22</sup> *Supra* note 17 at 75441 (noting that removing caps “could comprise the required anonymity by allowing the public to associate certain pricing and quantity data with trading patterns”).

<sup>23</sup> See TRACE Reporting and Dissemination, *TRACE Reporting Timeframes and Transparency Protocols*, available at: <https://www.finra.org/filing-reporting/trade-reporting-and-compliance-engine-trace/trace-reporting-timeframes>.

<sup>24</sup> 17 C.F.R. §43.4.

#### IV. Comments with respect to certain Treasury securities transactions.

The RFI asks whether post-trade transparency measures should distinguish among different transaction types. In this section, we provide our comments with respect to certain of those transaction types.

- Interdealer versus dealer-to-customer transactions: The RFI notes that, while the interdealer market often operates through automated trading on centralized order books, the dealer-to customer market continues to have a significant amount of trading executed through manual or voice-based systems.<sup>25</sup> We do not believe that transparency requirements should vary based on this characteristic.

Furthermore, we believe that indicating whether a transaction was an interdealer transaction or a dealer-to-customer transaction could compromise the confidentiality of the parties to the transactions, which could deter certain firms from participating in the markets and damage liquidity without any corresponding benefit to the public. Instead, interdealer and dealer-to-customer transactions should be subject to transparency requirements based on the liquidity characteristics of the securities underlying those transactions, as described above. Doing so will ensure that the public receives consistent information with respect to transactions in each of the Treasury Security Groups noted above, regardless of (i) the type of parties to the transactions and (ii) the execution method used with respect to the transactions.

- Inter-affiliate transactions: We believe that inter-affiliate transactions should be exempt from any transparency requirements. The RFI notes that one way additional transparency of post-trade data could assist market participants is “for use in transaction cost analysis and for greater visibility into intermediation patterns, which could help inform investor decisions around capital allocation to various segments of the Treasury securities market.”<sup>26</sup> Disclosure of inter-affiliate transactions is unlikely to provide market participants with such useful information. A typical inter-affiliate transaction is not intermediated (*i.e.*, through a broker or through trading on a platform) or the result of arms-length negotiation. In this regard, we note that inter-affiliate transaction data would not provide useful information with respect to transaction costs or Treasury security market intermediation patterns, nor would it provide insight with respect to market liquidity, pricing or bid-ask spreads. Instead, public dissemination of inter-affiliate transaction data is likely to confuse the public

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<sup>25</sup> *E.g.*, RFI at 38263 (“Should trades in different market segments or on different venues be displayed differently? For example, the interdealer market often operates on a microsecond level, often through automated trading on electronic centralized order books. In contrast, the dealer-to-customer market, while utilizing electronic trading more than in the past, still exhibits a significant amount of manual or voice-based trades. Should these transactions be treated or displayed differently, and if so, why and in what way?”).

<sup>26</sup> *Id.* at 38261. The RFI also warns that improperly calibrated transparency measures could affect “the potential willingness and ability of intermediaries to engage in large institutional risk transfer in the Treasury securities market ... [which] could in turn adversely affect market liquidity including, but not limited to, bid-ask spread and depth of market and ultimately Treasury’s debt issuance costs.” *Id.*

or distract the public from focusing on more useful data. Finally, we note that inter-affiliate transactions are often exempted from these types of regulations.<sup>27</sup>

- **When-issued transactions:** As noted above, we believe that when-issued transactions should be subject to transparency requirements applicable to transactions in Group 2 Treasury Securities. The when-issued market exhibits less liquidity than the on-the-run market, but is sufficiently liquid that additional, real-time transparency could help enhance price competition and discovery without unduly compromising liquidity.
- **Package transactions:** A package transaction generally consists of two or more component transactions executed between two or more counterparties where (i) the execution of each component transaction is contingent upon the execution of all other component transactions and (ii) the component transactions are priced or quoted together as one economic transaction with simultaneous or near-simultaneous execution of all components.<sup>28</sup> Package transactions in the Treasury markets include futures basis trades, swap spreads and rolls.

We believe that package transactions should be subject to transparency requirements based upon the nature of securities in the component transactions—for example, if a package transaction includes a transaction in a Group 1 Treasury Security and not a Group 2 or a Group 3 Treasury Security, the package transaction should be subject to the same transparency requirements as an outright transaction in a Group 1 Treasury Security. However, if the package transaction includes a transaction in a Group 1 Treasury Security and a Group 2 or Group 3 Treasury Security, the package transactions should be subject to the same transparency requirements as a Group 2 or Group 3 Treasury Security, as applicable. In these instances, the transaction in the Group 1 Treasury Security is typically to hedge the transaction in the Group 2 or Group 3 Treasury Security. In such cases, it makes more sense to subject the package transaction to the Group 2 or Group 3 Treasury Security transparency requirements, which are tailored to address the potential negative effects of post-trade transparency in less liquid markets. To further enhance transparency with respect to package transactions, we also recommend that Treasury require that package transaction reports include a flag indicating that the transaction is a package transaction.

## **V. Comments with respect to the extent and nature of transparency reporting requirements.**

The RFI generally requests feedback regarding the extent and nature of additional post-trade transparency.

- **Granularity:** The RFI asks whether post-trade transparency measures should require disclosure of transaction-level detail or aggregated information with respect to such

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<sup>27</sup> *E.g.*, 17 C.F.R. § 50.52 (generally exempting affiliated entities from the CFTC’s swap clearing requirement).

<sup>28</sup> *See, e.g.*, 17 C.F.R. § 37.9(d).

transactions.<sup>29</sup> We believe that post-trade transparency measures should require transaction-level reporting. Transaction-level reporting is more likely to be useful to Treasury for market monitoring purposes and to market participants for better understanding pricing with respect to particular markets and trades. We also note that market participants that are subject to TRACE reporting requirements, which include some of the largest and most active participants in the Treasury securities markets, have experience providing transaction-level information with respect to certain TRACE-Eligible Securities.<sup>30</sup>

- **Trade details:** The RFI requests comment on what trade details should be required to be released in connection with any post-trade transparency requirements.<sup>31</sup> We believe that the following information should be included in transaction-level reports: (i) the security identifier (*i.e.*, a CUSIP number or, in the case of when-issued transactions, the when-issued ticker), (ii) the date and time of the transaction, (iii) the price of the transaction, (iv) the size of the transaction (subject to cap sizes, as noted above), (v) an indicator of whether the transaction was executed on an alternative trading system (“ATS”), (vi) an indicator of whether a transaction was a package transaction (as noted above) and (vii) an indicator of whether a transaction was cleared.

We believe that an ATS indicator will be helpful to the public in understanding the volume of transactions that are executed on ATSs as compared to over-the-counter. In this regard, we note that the publicly disseminated data should not detail beyond whether a transaction was executed on an ATS (*i.e.*, the data should not disclose the name of the ATS on which a particular transaction was executed or the execution methodology (such as order book or request for quote) employed) because we believe that such disclosure would compromise confidentiality and liquidity, deterring participation on ATSs. Likewise, we believe that a clearing indicator would be beneficial in helping market participants to understand (i) how much transaction volume is being cleared and (ii) pricing with respect to cleared versus non-cleared transactions.

- **Participant information:** Information regarding the counterparties to the transaction should not be disclosed, even on an anonymized basis. We believe that disclosure of any participant information, even on an anonymized basis, could deter participation in the Treasury securities markets and lead to less liquidity. We also do not believe there is any benefit to the public in being able to identify the specific counterparties to any particular transaction. Indeed, as we have noted with respect to other proposed

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<sup>29</sup> RFI at 38262.

<sup>30</sup> See FINRA Rule 6730 (Transaction Reporting) (describing transaction-level reporting requirements with respect to certain TRACE-Eligible Securities, including corporate bonds and agency debt securities).

<sup>31</sup> RFI at 38262.

disclosure regimes,<sup>32</sup> transparency requirements that would enable the public to identify the trading strategies of particular firms would have serious, deleterious effects on participation and liquidity in the relevant markets. For example, disclosure that provides third parties with information on firms' investment positions and trading strategies enables those third parties to reap the benefit of a market participants' investment in intellectual property (the cost of which is borne by the market participants' investors), and, potentially, to take actions to impair bona fide investment positions and trading strategies.<sup>33</sup> Furthermore, public disclosure of such information would disincentivize research and investment in the Treasuries markets, which would result in less participation and less liquidity.<sup>34</sup> For these reasons, we do not believe that disclosure of participant information should be required.

## VI. Comments with respect to reporting mechanics.

The RFI also requests feedback on certain aspects of trade reporting mechanics. Our comments on these issues are as follows:

- Multiple transaction sides: The RFI requests comment on how transaction information should be reported and disseminated when a trade involves two or more reporting counterparties.<sup>35</sup> In particular, the RFI asks whether transaction reports should be matched and consolidated before dissemination so that a trade is only reported once and whether only one side of each trade should be released.<sup>36</sup> With respect to a dealer-to-customer transaction, we believe that only the dealer should be required to report transaction information (and, therefore, only the information reported by the dealer would be publicly disseminated). Dealers are more likely to have reporting systems already in place given their reporting obligations in other contexts, and placing this new reporting obligation on dealers will relieve non-dealers, who may be less likely to have reporting systems in place, of a potentially burdensome compliance obligation. With respect to a dealer-to-dealer transaction, we believe that both dealer parties should be required to report, but those transaction reports should be matched and consolidated prior to public dissemination. Requiring

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<sup>32</sup> See, e.g., MFA Comment Letter in Response to Notice of Proposed Rulemaking on Position Reporting of Large Security-Based Swap Positions; File No. S7-32-10 at 8-9.

<sup>33</sup> Studies show that these costs increase as public disclosure becomes more frequent. See Mary Margaret Meyers, James M. Poterba, Douglas A. Shackelford, & John B. Shoven, *Copycat Funds: Information Disclosure Regulation and the Returns to Active Management in the Mutual Fund Industry* (October 2001), available at: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=293617](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=293617).

<sup>34</sup> Studies show that public disclosure of proprietary investment positions and trading strategies decreases investment returns which, in turn, reduces the incentive for funds to engage in fundamental research. See, e.g., Zhen Shi, *The Impact of Portfolio Disclosure on Hedge Fund Performance*, WFA 2012 Las Vegas Meetings Paper (May 21, 2016), available at: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1573151](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1573151); Sitikantha Parida & Terence Teo, *The Impact of More Frequent Portfolio Disclosure on Mutual Fund Performance* (June 22, 2011), available at: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2097883](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2097883).

<sup>35</sup> RFI at 38262.

<sup>36</sup> *Id.*

matching and consolidation before public dissemination will prevent the potential for confusion that could result if the information reported by both dealers is released.

- Execution timestamps: The RFI notes that, in May 2022, FINRA filed with the Securities and Exchange Commission (“SEC”) a proposal to amend its rules to require timestamps for most electronic transactions to be reported at the finest increment captured by the execution system.<sup>37</sup> We believe that the level of granularity required with respect to execution timestamps for any post-trade transparency regime should be the same as is required by FINRA with respect to TRACE reporting.<sup>38</sup> Following FINRA’s approach would allow market participants to leverage their existing resources; setting different execution timestamp requirements would require costly compliance system buildouts without any discernible benefit to Treasury, market participants or the public.
- Late transactions and revisions: The RFI requests comment on how late transactions and revisions should be addressed in publicly disseminated data.<sup>39</sup> We believe that Treasury should implement error correction requirements modeled on those applicable to FINRA’s TRACE reporting regime.<sup>40</sup> TRACE generally requires that an error be corrected immediately and, in any case, within 20 days of the initial report.<sup>41</sup> We believe that FINRA’s approach to error correction is reasonable and has worked well for market participants. Furthermore, promulgating substantially similar rules will similarly allow market participants to leverage their existing compliance systems.

## VII. Comments with respect to an implementation timeline.

We believe that the end goal in implementing any post-trade public transparency regime for Treasury securities transactions should be real-time, transaction-level reporting (subject to

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<sup>37</sup> RFI at 38261.

<sup>38</sup> See FINRA Rule 6860.

<sup>39</sup> RFI at 38263.

<sup>40</sup> See Frequently Asked Questions about TRACE, Section 3.1.9, available at <https://www.finra.org/filing-reporting/trace/faq#GeneralReporting>. Members should take particular care to report transactions into TRACE correctly and, therefore, the need for corrections should be rare. Nonetheless, where a correction is necessary, the member immediately must submit a correction to rectify inaccurate information. Information required to be corrected includes: (1) any item of information required by Rule 6730(c), and (2) any information voluntarily entered into a TRACE optional field. However, any change made to a transaction attribute that does not correspond to a TRACE trade report field should not result in a TRACE trade report correction.

For example, if only the account representative associated with a transaction changes, the TRACE trade report to FINRA should not be changed, as this information does not correspond to a TRACE trade report field. Corrections on trades can be performed during a period of T+20. If the trade correction is greater than T+20, a reversal should be performed on the transaction. In addition, a new “as/of” transaction report should be submitted to implement the correction. Any change or amendment after the required reporting time (i.e., within 15 minutes from the time of execution for corporate bonds) will cause the trade report to be deemed late and reflected as such on the firm’s report card.

<sup>41</sup> *Id.*

block trade dissemination delays and volume caps), at least with respect to transactions in Group 1 and Group 2 Treasury Securities. Many of the most active Treasury securities market participants would not be starting from scratch with respect to building out real-time Treasury securities transaction reporting because they have—or soon will have<sup>42</sup>—TRACE reporting requirements with respect to Treasury securities. Against that backdrop, we think transparency reforms can be implemented in staged fashion, building on existing reporting systems.

In particular, FINRA’s reporting requirement with respect to Treasury securities currently provides for an end-of-day reporting timeframe.<sup>43</sup> In May 2022, FINRA filed with the SEC a proposal to amend its rules for reporting Treasury securities transactions to TRACE to provide for a 60-minute reporting timeframe.<sup>44</sup> We think that this proposal should be approved and that firms will put in place systems to enable them to comply with the shortened reporting timeframe. In order to leverage such existing compliance systems and enable public dissemination of Treasury security transactions to begin quickly, we propose the following implementation timeline regarding the public dissemination transaction-level information for transactions in Group 1 and Group 2 Treasury Securities,<sup>45</sup> subject to Treasury establishing appropriate minimum block sizes, block trade dissemination delays and volume caps:<sup>46</sup>

- *First*, public dissemination can be implemented quickly with respect to data that is currently reported to TRACE based on the end-of-day reporting timeframe. Given that certain depository institutions will become subject to the TRACE reporting requirements in September 2022,<sup>47</sup> Treasury could begin requiring public dissemination soon thereafter, provided that Treasury first establishes appropriate volume cap sizes.
- *Second*, Treasury could begin disseminating data reported to TRACE on a one-hour delayed basis shortly after FINRA’s proposed rule change effecting the 60-minute reporting timeframe is enacted, provided that Treasury first establishes appropriate

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<sup>42</sup> In October 2021, the Federal Reserve Board adopted a proposal to require certain depository institutions to report Treasury securities transactions to TRACE beginning in September 2022. 86 FR 59716 (Oct. 28, 2021); RFI at 38260.

<sup>43</sup> FINRA Rule 6730(a)(4)(A); RFI at 38260.

<sup>44</sup> See Proposed Rule Change to Amend FINRA Rule 6730 (Transaction Reporting) to Enhance TRACE Reporting Obligations for U.S. Treasury Securities (May 23, 2022), available at <https://www.finra.org/sites/default/files/2022-05/SR-FINRA-2022-013.pdf>; see also RFI at 38260-38261.

<sup>45</sup> As noted above, we do not believe it is appropriate to require public dissemination of information with respect to transactions in Group 3 Treasury Securities at this time.

<sup>46</sup> We respectfully note that Treasury should consider partnering with FINRA in regard to the implementation and logistics of public dissemination given FINRA’s extensive experience with TRACE and given the existing partnership between Treasury and FINRA with regard to the public dissemination of TRACE Treasury data. See RFI at 38260 (“FINRA, in consultation with Treasury and with the approval of the SEC, began publicly releasing weekly aggregate volumes . . . in March 2020 based on security type, interdealer or dealer-to-customer venue, remaining term to maturity, and whether the securities were the most recently auctioned (on-the-runs) or were more seasoned (off-the-runs).”).

<sup>47</sup> See *supra* note 42.

minimum block sizes and block trade data dissemination delays and recalibrates, as appropriate, volume cap sizes.

- *Third*, once FINRA proposes and implements a rule change to require real-time TRACE reporting of Treasury securities transactions, Treasury could begin disseminating such data on a real-time basis, subject to Treasury recalibrating, as appropriate, volume cap sizes, minimum block trade dissemination delays and minimum block sizes.

We believe that this incremental implementation timeline will balance the desire to begin publicly disseminating Treasury securities transaction data quickly against the need for firms to develop adequate reporting capabilities in light of current and expected TRACE requirements.

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We appreciate the opportunity to provide our comments to Treasury regarding the RFI, and we would be pleased to meet with Treasury staff to discuss our comments. If the staff has questions or comments, please do not hesitate to call Matthew Daigler, Vice President & Senior Counsel, or the undersigned, at (202) 730-2600.

Very truly yours,

/S/ Jennifer W. Han

Jennifer W. Han  
Executive Vice President  
Chief Counsel & Head of Global Regulatory Affairs

cc:

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