
DEPARTMENT OF THE TREASURY

Docket No. TREAS-DO-2022-0012

Notice Seeking Public Comment on Additional Transparency for Secondary Market Transactions of Treasury Securities

AGENCY: Department of the Treasury.

ACTION: Notice and Request for Information.

SUMMARY: The Department of the Treasury (Treasury) is seeking public comment 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.

DATES: Comments are due by [INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER].

ADDRESSES: You may submit comments using any of the following methods:

Federal eRulemaking Portal: www.regulations.gov. Follow the instructions on the website for submitting comments.

E-mail: govsecreg@fiscal.treasury.gov. Include docket number TREAS-DO-2002-0012 in the subject line of the message.

All submissions should refer to docket number TREAS-DO-2022-0012. Please submit your comments using only one method, along with your full name and mailing address. We will post comments on www.regulations.gov and www.treasurydirect.gov. In general, comments received, including attachments and other supporting materials, are part of the public record and are available to the public. Do not submit any information in your comments or supporting materials that you consider confidential or inappropriate for public disclosure.

FOR FURTHER INFORMATION CONTACT: Fred Pietrangeli, Director, Office of Debt Management, Office of the Assistant Secretary for Financial Markets, at debtmanagement@treasury.gov or Fredrick.Pietrangeli@treasury.gov. Questions about submitting comments should be directed to Lori Santamorena, Government Securities Regulations Staff, at (202) 504-3632 or govsecreg@fiscal.treasury.gov.

SUPPLEMENTARY INFORMATION:

I. Background

Treasury, in consultation with other members of the Inter-Agency Working Group on Treasury Market Surveillance (IAWG),[1] is exploring the possibility of additional post-trade transparency of data for secondary market cash transactions of Treasury securities (which we refer to as the "Treasury securities market" in this request for information).[2]

[1] The IAWG members are Treasury, the Board of Governors of the Federal Reserve System (Federal Reserve Board), the Federal Reserve Bank of New York (FRBNY), the Securities and Exchange Commission (SEC), and the Commodity Futures Trading Commission (CFTC).

[2] In addition, at the November 2021 U.S. Treasury Market Conference, Treasury Under Secretary for Domestic Finance Nellie Liang highlighted past improvements in data quality and transparency and noted Treasury "will consider ways to improve transparency about transactions, such as providing data at a higher frequency, building on lessons learned from the recent expanded reporting of weekly volumes and recognizing investors' needs to be able to transact quickly in large quantities." Remarks by Under Secretary for Domestic Finance Nellie Liang at the 2021 Treasury Market Conference" (Nov. 17, 2021), available at https://home.treasury.gov/news/press-releases/jy0491.

Providing additional insight into these transactions may enhance liquidity by fostering a greater understanding of market activity across market segments and supporting the smooth functioning of the Treasury securities market. Additional transparency may also promote greater competition in the Treasury securities market. However, based on the vital roles and unique structure of the Treasury securities market, careful consideration is necessary regarding how much and in what form information should be made available, so that market participants are not disincentivized from providing liquidity and one group of participants is not unduly favored over another. Specifically, consideration is necessary given characteristics of the Treasury market structure that differ from other fixed-income markets, such as differences in market segmentation, overall volumes, individual trades sizes, types of market participants, and methods of execution. Treasury is interested in hearing from the public on the potential benefits and risks of several examples of potential ways to build on existing public transparency.

IAWG Workstreams

This request for information regarding additional post-trade transparency for secondary market cash transactions of Treasury securities is part of the ongoing work of the IAWG to strengthen the resilience of the Treasury market across all segments, including cash, futures, and financing. As the deepest and most liquid financial market in the world, the Treasury market serves several key functions, including enabling the financing of the federal government at the least cost, providing a safe and liquid asset to support the flow of capital and credit to households and businesses, and facilitating the implementation of monetary policy. To support these functions and to improve Treasury market resilience, the IAWG's work has been organized into five workstreams:

improving resilience of market intermediation; improving data quality and availability; evaluating expanded central clearing; enhancing trading venue transparency and oversight; and assessing effects of fund leverage and liquidity risk management practices.[3] As outlined in the November 2021 Staff Progress Report (Staff Progress Report), IAWG staffs proposed "transparency that fosters public confidence, fair trading, and a liquid market" as a principle to guide public policy decisions in the Treasury securities market, and created a workstream on improving data quality and availability.[4] The Staff Progress Report described variations in data quality and availability for various Treasury market segments, including cash, funding, and derivatives.

In referring to the March 2020 public release of the TRACE Treasury Aggregate Statistics, the Staff Progress Report noted that "given the positive feedback received on the release of this data, and the lack of negative market feedback, it is consistent with prior principles to explore increasing transparency further."[5]

Timeline of Treasury TRACE Data Dissemination and Improving Data Quality

Beginning in 2017, the Financial Industry Regulatory Authority (FINRA) required its members to report Treasury secondary market transactions through its Trade Reporting and Compliance Engine (TRACE) and shared this data with Treasury, the Federal Reserve Board, FRBNY, the SEC, and the CFTC.[6]

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[3] Id.
[4] "Recent Disruptions and Potential Reforms in the U.S. Treasury Market: A Staff Progress Report" (Nov. 8, 2021), available at https://home.treasury.gov/system/files/136/IAWG-Treasury-Report.pdf.
[5] Id.
[6] FINRA Regulatory Notice 16-39, available at https://www.finra.org/sites/default/files/notice_doc_file_ref/Regulatory-Notice-16-39.pdf.

In 2018, Treasury conducted extensive market outreach and analysis to better understand the potential benefits and risks of additional public transparency for Treasury securities TRACE transaction data.[7]

Informed by that effort, FINRA, in consultation with Treasury and with the approval of the SEC,[8] began publicly releasing weekly aggregate volumes, referred to as "TRACE Treasury Aggregate Statistics," 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).[9] The following year, enhancements were made to the weekly aggregates, specifically releasing historical data since January 2019 and incorporating the 20-year sector to accommodate the re-introduction of the 20-year nominal coupon bond.[10] Market feedback has indicated the current release of weekly aggregates provides helpful information without negative implications for liquidity, and that further transparency could be beneficial.

Since receiving the TRACE data, Treasury has coordinated with other IAWG members and FINRA to understand how to improve the quality of the TRACE data, principally to better inform the official sector, but also in consideration of potential additional public transparency. FINRA has taken several actions to improve the quality

[7] "Remarks of Deputy Secretary Justin Muzinich at the 2019 US Treasury Market Structure Conference" (Sept. 23, 2019), available at https://home.treasury.gov/news/press-releases/sm782.
[8] "Order Approving Proposed Rule Change To Allow FINRA To Publish or Distribute Aggregated Transaction Information and Statistics on U.S. Treasury Securities," available at https://www.finra.org/sites/default/files/2019-12/SR-FINRA-2019-028-Approval-Order.pdf.
[9] "Now Available - Weekly Aggregated Reports and Statistics for U.S. Treasury Securities" (Mar. 10, 2020), available at https://www.finra.org/filing-reporting/trace/now-available-weekly-aggregated-reports-and-statistics-us-treasury.
[10] "Enhancements to Weekly Aggregated Reports and Statistics for U.S. Treasury Securities" (Apr. 29, 2021), available at https://www.finra.org/filing-reporting/trace/enhancements-weekly-aggregated-reports-statistics-us-treasury-securities.

and coverage of the TRACE data, including requiring large alternative trading systems (ATS) to identify non-FINRA member subscribers (such as principal trading firms) on transaction reports, [11] clarifying the exclusion of auction transactions,[12] and requiring FINRA members to separately report transactions that occur within discrete trading sessions on ATSs, thereby more clearly identifying who is trading with whom in certain instances.[13]

In addition, in consultation with Treasury, FINRA solicited comments in December 2020 on potential enhancements to the transaction data reported to TRACE.[14] The potential changes to TRACE reporting of Treasury securities transactions would (1) require more granular timestamps where applicable, (2) shorten the reporting timeframe from end-of-day to within 60 minutes in most cases, (3) standardize price reporting, including separating ATS fees, and (4) introduce new modifiers to identify non-ATS venues, methods of execution, trading units within a firm executing a trade, multi-leg trading strategies, and methods used to clear and settle transactions.[15]

Furthermore, in October 2021 the Federal Reserve Board adopted a proposal to require certain depository institutions to report Treasury securities transactions to

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[11] Effective April 1, 2019, large alternative trading systems were required to identify non-FINRA member subscriber counterparties in TRACE reports to be used for regulatory purposes and not made public. See FINRA Regulatory Notice 18-34, available at https://www.finra.org/rules-guidance/notices/18-34.
[12] FINRA TRACE Trade Reporting Notice U.S. Treasury Securities Auction Awards, available at https://www.finra.org/sites/default/files/notice_doc_file_ref/Trade-Reporting-Notice-010919.pdf.
[13] Effective April 12, 2019, a temporary exemption expired that permitted aggregate reporting for certain ATS transactions. See FINRA Regulatory Notice 19-03, available https://www.finra.org/rules-guidance/notices/19-03.
[14] FINRA Regulatory Notice 20-43, available at https://www.finra.org/sites/default/files/2020-12/Regulatory-Notice-20-43.pdf.
[15] *Id*.

TRACE beginning in September 2022.[16] Reporting by depository institutions will fill a key gap in the current TRACE data.

Recent FINRA Actions

Regarding data quality, in May 2022 FINRA filed with the SEC a proposal to amend its rules for reporting transactions to TRACE, requiring that (1) timestamps for most electronic transactions are reported at the finest increment captured by the execution system, and (2) transactions are generally reported as soon as practicable but no later than 60 minutes.[17]

Regarding additional transparency, also in May 2022, the FINRA Board of Governors approved the submission to the SEC of a proposal to publish aggregated transaction information on Treasury securities more frequently, in response to a request from Treasury.[18]

II. Solicitation for Comments

Treasury is seeking public comment on additional post-trade transparency in the Treasury securities market, including potential benefits and risks of several options to build on existing public transparency.

Any additional transparency should take into consideration the differences among security types and trading venues. For example, on-the-run fixed-rate nominal Treasury securities are actively traded, accounting for an average of about 60% of the weekly volume for all Treasury securities,[19] with a significant portion occurring on electronic

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[16] 86 Fed. Reg. 59716 (Oct. 28, 2021).
[17] https://www.finra.org/sites/default/files/2022-05/SR-FINRA-2022-013.pdf.
[18] "May 2022 Board Update" (May 20, 2022), available at https://www.finra.org/about/governance/finra-board-governors/meetings/update-finra-board-governors-post-meeting-May-2022.
[19] Treasury staff calculations based on the publicly available TRACE Treasury Aggregate Statistics for 2021.

interdealer platforms. In contrast, other Treasury securities, including off-the-run fixed-rate nominal securities, are more often traded between dealers and customers, in larger individual trade sizes, and are more likely to use voice-based methods or electronic request-for-quote. In addition, further differences exist between fixed-rate nominal coupons, bills, floating rate notes (FRN), Treasury inflation-protected securities (TIPS), and STRIPS (Separate Trading of Registered Interest and Principal of Securities).

Other considerations for the design of additional transparency include the timing of reporting of transactions to TRACE and the potential for subsequent revisions to reports. Under current FINRA rules, FINRA members must generally report transactions by the end of the day. As stated above, FINRA's recent proposal would reduce this timeframe to 60 minutes. In some instances, transactions may be reported late or revised after the reporting timeframe. The current weekly aggregate statistics are released with a lag of two business days to incorporate most of these late or revised transactions. However, after the weekly aggregate statistics are published, they are not amended to incorporate additional late transactions or revisions. If transaction data were released with a shorter delay, additional consideration would need to be given to the potential effects or treatment of late or revised transactions.

Another consideration when evaluating the benefits and risks of additional transparency is measuring liquidity. One common definition of liquidity in the Treasury securities market is the ability to both transact continuously and trade in large quantities at minimal cost.[20] Measuring liquidity generally relies on observing a collection of price

[20] For a discussion of measuring liquidity, see "Joint Staff Report: The U.S. Treasury Market on October 15, 2014" (July 13, 2015), available at https://home.treasury.gov/system/files/276/joint-staff-report-the-us-treasury-market-on-10-15-2014.pdf, and "Notice Seeking Public Comment on the Evolution of the Treasury Market Structure," 81 Fed. Reg. 3928 (Jan. 22, 2016).

and quantity metrics, such as the quoted spread between bid and offer prices, the depth of resting orders in a central-limit order book, the replenishment rate of central-limit book orders, or the price impact in response to large net flows. Treasury is also interested in additional perspectives on how best to measure liquidity in the Treasury securities market and how liquidity is likely to change with additional transparency of transactions.

More generally, Treasury seeks feedback on security characteristics, market structure features, and other factors when considering additional transparency, as well as specific recommendations to help ensure the public release of information appropriately balances the benefits and risks.

Responses to the following topics will help inform Treasury's policy perspectives on additional post-trade data transparency regarding the Treasury securities market. Historically, Treasury has taken a gradual approach to additional public transparency based on feedback from a range of Treasury market participants, including both intermediaries and end-user investors. Some market participants have expressed concerns regarding the effect of additional 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.

In contrast, other market participants have cited the benefits of additional transparency, including post-trade data 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.

Please include in your comments: (1) any data or reasons related to your views, including examples; (2) any alternative approaches and options that should be considered; and (3) any specific recommendations regarding the appropriate form for publicly released transaction information. Where appropriate, please distinguish between the different Treasury security types (i.e., fixed-rate nominal coupons, bills, TIPS, FRNs, and STRIPS), characteristics (e.g., on-the-run, off-the-run, etc.), and market segments (e.g., interdealer, dealer-to-customer, etc.). We also welcome comments on any aspect of additional post-trade transparency not addressed in this request for information.

1. Benefits and risks of additional public transparency in the Treasury securities market

1.1 What are the main benefits of additional transparency of data regarding transactions in the Treasury securities market? Please elaborate on the benefits. How should the benefits be measured?

1.2 What are the main risks of additional transparency of data regarding transactions in the Treasury securities market? Please elaborate on the risks. How should the risks be measured?

1.3 In what ways would additional transparency further increase public confidence in the Treasury securities market?

1.4 What types of market participants would benefit from additional transparency? Would some market participants derive greater benefit from additional transparency relative to others? If yes, please elaborate on the types of market participants and the specific benefits.

1.5 What types of market participants would be harmed more from additional transparency? Would some market participants derive greater harm from additional transparency relative to others? If yes, please elaborate on the types of market participants and the specific harms.

1.6 In what form (e.g., granularity of data, aggregation of data, frequency of release, time of day, data format, etc.) would public release of Treasury securities transactions market data best balance the potential benefits and harms? Please elaborate.

2. Considerations for additional public transparency as it relates to market resilience

2.1 How would additional transparency improve Treasury securities market resilience?

2.2 Please provide specific examples, if applicable, of how additional transparency would have helped improve or hurt market resilience during recent periods of market volatility such as the October 2014 flash rally, the September 2019 repo market pressures, and the March 2020 COVID-19 pandemic-related dislocations. [21]

3. Considerations for additional public transparency as it relates to market liquidity

3.1 How would you define liquidity in the Treasury securities market?

3.2 What data or metrics should be used to measure liquidity in the Treasury securities market?

3.3 How could additional transparency incentivize intermediation or otherwise improve Treasury securities market liquidity, if at all? Please provide specific examples of how additional transparency could improve market liquidity.

[21] See "Recent Disruptions and Potential Reforms in the U.S. Treasury Market: A Staff Progress Report" (Nov. 8, 2021), available at https://home.treasury.gov/system/files/136/IAWG-Treasury-Report.pdf.

3.4 How could additional transparency disincentivize intermediation or otherwise impair Treasury securities market liquidity, if at all?

4. **Examples of additional transparency.** Note the examples presented in this section are designed to illustrate a range of possible degrees of transparency to better understand market participants views on the benefits and risks of additional transparency. These illustrative examples are not the only options for levels of transparency. If market participants have other views, please elaborate.

4.1 Example A. For each individual CUSIP, daily average prices, trade count, and traded volumes could be released. Please comment on the benefits and risks of this example.

4.2 Example B. Adding to Example A, transaction-level details could be released for on-the-run nominal coupons. Please comment on the benefits and risks of this example, including whether transactions above a certain dollar value should disclose the actual trade size or be subject to caps or additional delays. What specific caps or delays would be preferable, if any?

4.3 Example C. Adding to Example B, transaction-level details could be released for every Treasury security. Please comment on the benefits and risks of this example, including whether volume caps or delays should be tailored to different segments based on the different liquidity characteristics of Treasury securities in those segments.

4.4 Are there other examples that Treasury should consider, or modifications to Examples A, B, and C? Please elaborate.

4.5 In addition to the examples above, what are your views on providing transaction-level data with anonymized participant identification, with a significant lag, that could either be available to the public or only be available to academic institutions for the purpose of research?

4.6 Please indicate which of the above examples you most prefer, or if you prefer an outcome not represented in these examples. Please elaborate.

4.7 What are the potential benefits and risks of gradually phasing in additional transparency over time? What lessons can be drawn about phasing from the implementation of additional transparency in other markets? What would be your recommendation for a phase-in schedule?

5. Volumes and Price Considerations and Scope

5.1 Please describe how volume data could be adjusted for large trade sizes if the data is publicly disseminated. For example, should large trades be excluded from aggregates, or large volumes capped if provided at a transaction level as is done for transparency of certain other fixed-income securities? If so, please elaborate on how this should be different for on-the-run versus off-the-run securities, security type, or maturity segment.

5.2 Pre- and post-auction when-issued volumes through the end of the auction day are currently excluded from the weekly data release. What are your views on continuing to exclude this data or separately identifying pre- or post-auction when-issued volumes?

5.3 How should additional transparency vary, if at all, based on (a) security type (i.e., fixed-rate nominal coupons, bills, FRNs, TIPS, and STRIPS), (b) on-the-run or off-the-run status, (c) maturity, or (d) other security characteristics including, but not limited to, average trading volumes or trade size?

5.4 What pricing information would be the most beneficial to release, such as end-of-day prices, volume-weighted average prices, or transaction-level prices? What pricing information would be most harmful to release? Please explain your reasoning and how such information would be of use.

5.5 If price information is aggregated for release, how should the pricing information be calculated, such as for a weighted average? Is there a certain time of day that prices should be captured, or is there a certain time range to calculate averages (e.g., volume-weighted prices by tenor from 9 a.m. to 3.30 p.m.)? Is there a preference for yield or price or some other pricing convention? Please be specific by security type.

5.6 What types of transactions (e.g., swap box, basis, affiliate, and others) should be identified separately due to a different pricing convention that could result in prices appearing to be different from the prevailing market price if not properly identified? How should these trades be identified and represented in the data for public dissemination? What is your view on including indicators for transactions using a different pricing methodology? Should the pricing of different types of transactions be converted to comparable prices? Please elaborate on the benefits and risks.

6. Other trade characteristics

6.1 What additional trade details should be released, such as counterparty types, whether a trade occurs on an ATS, the type of trading venue or venue name, the trade direction (buy or sell), the trading protocol (e.g., request-for-quote, central limit order book, etc.), or any other details that may be considered? What are the benefits and risks of releasing such additional information?

6.2 The current release provides volume aggregates. How do your views change on what, if any, trade details should be released if the data is disseminated at the transaction level?

6.3 When a trade involves two or more reporting counterparties, should the transaction reports be matched and consolidated before dissemination so that a trade is only reported once? Should only one side of each trade be released? What should be done for a trade with multiple counterparties (a so-called "one-to-many" trade)?

6.4 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?

7. Late transactions and revisions

7.1 How should late transactions and revisions be addressed in the publicly disseminated data?

7.2 To what extent should the volume of late transactions and revisions influence dissemination timing?

Dated:

SIGNED:

Brian Smith, Deputy Assistant Secretary for Federal Finance