CITADEL

February 22, 2021

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Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006–1506

Re: Regulatory Notice 20-43: Enhancements to TRACE Reporting for U.S. Treasury Securities

Citadel appreciates the opportunity to provide comments to the Financial Industry Regulatory Authority ("FINRA") on its proposal to enhance the regulatory reporting regime for U.S. Treasury securities (the "Proposal").[1]

Citadel has consistently supported increasing the quality of U.S. Treasury market data that is made available to the official sector in order to improve monitoring, surveillance, and analytical capabilities. In addition, with comprehensive data, regulators and policymakers are better equipped to evaluate additional policy proposals to modernize the regulatory framework applicable to Treasuries.

This Proposal would enhance the current regulatory reporting regime by improving the timeliness of reported data and by specifically identifying, among others, whether a transaction (a) is executed on a multilateral trading venue that is not registered as an alternative trading system ("ATS") and/or (b) is intended to centrally clear. These aspects of the Proposal, in particular, directly support the ongoing consideration of policy proposals designed to enhance transparency and resiliency in the U.S. Treasury market, including introducing real-time public reporting, rationalizing the oversight of multilateral trading venues, and expanding central clearing in both the cash and repo markets. Therefore, we recommend that FINRA prioritize the implementation of these specific aspects of the Proposal and further improve the timeliness of reported data by harmonizing with reporting requirements for other fixed income instruments.

I. Improving the Timeliness of Reported Data

The Proposal would require secondary market Treasury transactions to be reported to FINRA within 60 minutes after execution, in contrast to the current end-of-day reporting requirements. We agree that this proposed reduction in reporting timeframes would provide the official sector with access to more timely data regarding intraday pricing and liquidity dynamics. However, we recommend that FINRA take this opportunity to further improve the timeliness of reported data by harmonizing with reporting requirements for other fixed income instruments. In particular:

- Corporate bonds and agency debt securities generally must be reported to FINRA within 15 minutes of execution;[2]

[1] https://www.finra.org/rules-guidance/notices/20-43.

[2] *See* FINRA Rule 6730.

- Interest rate swaps must be reported to a swap data repository "as soon as technologically practicable" after execution;[3] and

- Treasury futures are generally reported in real-time.

Given these existing requirements for other fixed income instruments, market participants should be well-situated to comply with similar requirements in the Treasury market. Notably, Treasury market participants commonly trade other fixed income instruments, and therefore have already established the infrastructure necessary to comply with real-time reporting requirements. These existing operational and technological capabilities are evidenced by the fact that FINRA members already report approximately 95% of Treasury transactions within an hour after execution, despite not being required to report until end-of-day.[4] The U.S. Treasury market is the deepest and most liquid government securities market in the world, and market participants should be reporting data to the official sector in accordance with timeliness standards that are at least on par with requirements for other fixed income instruments.

In addition, adopting reporting timeframes that are harmonized with those of other fixed income instruments is warranted given the ongoing consideration of whether to publicly report secondary market Treasury transactions. The responses to the 2016 Treasury RFI[5] demonstrate that a diverse group of market participants support increasing post-trade transparency in the Treasury market, including buyside firms,[6] agency brokers,[7] trading venues,[8] clearing venues,[9] electronic market makers,[10] and academics.[11] While there are details to resolve regarding the implementation of a public reporting regime, it is clear that a decision to require the real-time public reporting of any Treasury transactions (*e.g.* on-the-runs) will require that trading activity be reported to FINRA as soon as possible following execution. As a result, it would be preferable if the new reporting timeframes established by the Proposal accommodated the potential for public reporting without requiring yet further amendment (particularly if an extended implementation timeline is contemplated). Harmonizing the reporting timeframes with those of other fixed income instruments, where public reporting has already been implemented, would therefore yield this additional benefit.

[3] *See* CFTC Reg. §43.3(a).

[4] Proposal at page 10.

[5] Available at: https://www.regulations.gov/docket?D=TREAS-DO-2015-0013.

[6] *See* Letters from the Managed Funds Association and Citadel LLC.

[7] *See* Letter from Convergex.

[8] *See* Letter from Nasdaq, Inc.

[9] *See* Letter from DTCC.

[10] *See* Letters from Virtu Financial, FIA PTG, and the Modern Markets Initiative.

[11] *See* Letters from Joel Hasbrouck and Eric Budish.

II. Identifying Trading Activity on Multilateral Venues

Trading venue oversight is an important area of focus in the ongoing review of the regulatory framework applicable to U.S. Treasuries. Therefore, it is important for the official sector to have comprehensive data regarding the trading activity that is occurring on multilateral trading venues, regardless of whether the venue is currently registered as an ATS.

At the moment, an ATS that solely trades government securities and is registered as a broker-dealer or is a bank is exempt from the requirement to register as an exchange or an ATS with the Securities and Exchange Commission ("SEC").[12] The SEC has recently proposed to remove this exemption, which would increase the number of multilateral Treasury trading venues registered as an ATS.[13] However, even if this proposal is finalized, it is unclear whether the SEC will extend the ATS registration requirement to multilateral request-for-quote ("RFQ") venues that operate in the dealer-to-customer segment of the market.[14] Data shows that the dealer-to-customer segment of the market accounts for approximately 50% of total market volume,[15] and that multilateral RFQ venues have significant market share.[16]

By requiring market participants to report the identity of non-ATS electronic trading platforms on which Treasury transactions are executed, the FINRA Proposal ensures that the official sector will have comprehensive data regarding trading volumes on multilateral venues operating in both the dealer-to-dealer and dealer-to-customer segments of the market. The definition of a "non-ATS trading platform" should clearly refer to multilateral trading venues that are not registered as an ATS,[17] including platforms that facilitate multilateral execution by allowing participants to exchange information regarding the essential terms of a transaction, negotiate the terms of a trade, or to respond to actionable indications of interest.

III. Identifying Whether a Transaction is Centrally Cleared

Another important area of focus in the ongoing review of the regulatory framework applicable to U.S. Treasuries involves central clearing, and efforts to expand access in both the cash and repo

[12] *See* 17 CFR 242.301(a)(4)(i) and (ii)(A).

[13] 85 FR 87106, available at: https://www.govinfo.gov/content/pkg/FR-2020-12-31/pdf/2020-21781.pdf.

[14] *See id.* at 87156. *See also* U.S. Securities and Exchange Commission, Fixed Income Market Structure Advisory Committee, Preliminary Recommendation Regarding Defining "Electronic Trading" for Regulatory Purposes (October 2020) at FN 2, available at: https://www.sec.gov/spotlight/fixed-income-advisory-committee/fimsac-preliminary-recommendation-re-definition-of-electronic-trading.pdf and Remarks at U.S. Treasury Market Conference, Commissioner Elad L. Roisman (Sept. 29, 2020), available at: https://www.sec.gov/news/speech/roisman-us-treasury-conference-2020-09-29.

[15] *See* https://www.finra.org/filing-reporting/trace/data/trace-treasury-aggregates.

[16] "The Bond-Trading Revolution Is Real This Time," Feb. 10, 2021, available at: https://www.bloombergquint.com/gadfly/the-bond-trading-revolution-is-real-this-time.

[17] This formulation avoids needing to determine whether a platform meets the current definition of an ATS, a determination which can be subject to some uncertainty.

markets.[18] Estimates indicate that less than 25% of secondary cash market Treasury transactions are centrally cleared.[19] It is important for the official sector to have comprehensive data regarding current clearing rates, and whether industry efforts to expand access to central clearing are delivering results.

Therefore, we support the Proposal requiring market participants to identify whether a Treasury transaction is intended to be centrally cleared. While this may require some firms to upgrade internal systems, it is important to note that similar clearing flags have been successfully implemented in multiple jurisdictions for other fixed income instruments that are transacted on a cleared and uncleared basis, notably OTC derivatives.[20] As such, the Proposal should not raise novel compliance issues for member firms.

IV. Other Aspects of the Proposal

Consistent with the objective of increasing the quality of data made available to the official sector, we support several other aspects of the Proposal, including (a) increasing the granularity of execution timestamps, (b) adding desk identifiers, and (c) standardizing how the transaction price field is reported. In turn, certain other aspects of the Proposal require additional consideration and refinement, such as (i) reporting the method of execution, (ii) providing additional granularity regarding package transactions, and (iii) disclosing ATS fees separately.

As FINRA moves to finalize the Proposal, we recommend that priority be given to reporting enhancements that directly support the ongoing consideration of policy proposals designed to increase transparency and resiliency in the U.S. Treasury market. This includes improving the timeliness of reported data and by specifically identifying whether a transaction is executed on a multilateral trading venue and/or is centrally cleared.

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[18] For example, the U.S. Treasury's October 2017 Capital Markets Report concluded that "Treasury market clearing has become bifurcated, reducing efficiency and presenting potential risks. Our regulatory regime needs to keep pace with these market developments, and Treasury recommends further study of potential solutions by regulators, market participants, and other stakeholders." *See* https://www.treasury.gov/press-center/press-releases/Documents/A-Financial-System-Capital-Markets-FINAL-FINAL.pdf at page 8. *See also* "Enhancing Liquidity of the U.S. Treasury Market Under Stress," Liang, N., Parkinson, P. (Dec. 16, 2020), available at: https://www.brookings.edu/wp-content/uploads/2020/12/WP72_Liang-Parkinson.pdf and "Still the World's Safe Haven? Redesigning the U.S. Treasury Market After the COVID-19 Crisis," Duffie, D., (June 2020), available at: https://www.brookings.edu/wp-content/uploads/2020/05/WP62_Duffie_v2.pdf.

[19] *See* "Still the World's Safe Haven? Redesigning the U.S. Treasury Market After the COVID-19 Crisis," Duffie, D., (June 2020) at page 14, available at: https://www.brookings.edu/wp-content/uploads/2020/05/WP62_Duffie_v2.pdf.

[20] *See* CFTC Part 43, Appendix A, Data Element #1, available at: https://www.ecfr.gov/cgi-bin/text-idx?SID=4230e65c36bc32e95832ea1ca651ebb1&mc=true&node=ap17.2.43.0000_0nbspnbspnbsp.a&rgn=div9 and MiFID II RTS 2, Annex II, Table 2 at page 7, available at: https://ec.europa.eu/finance/securities/docs/isd/mifid/rts/160714-rts-2-annex_en.pdf.

We appreciate the opportunity to provide comments to FINRA on further enhancing the reporting regime for U.S. Treasuries. Please feel free to call the undersigned at (646) 403-8200 with any questions regarding these comments.

Respectfully,

/s/ Stephen John Berger

Managing Director

Global Head of Government & Regulatory Policy