August 26, 2022

United States Department of the Treasury
1500 Pennsylvania Ave NW
Washington, DC 20220

Re: Notice Seeking Public Comment on Additional Transparency for Secondary Market Transactions of Treasury Securities (Docket No. TREAS-DO-2002-0012); 87 Fed. Reg. 38,359 (June 27, 2022)

Dear Ladies and Gentlemen:

Better Markets[1] appreciates the opportunity to provide comments on the above-captioned Request for Information ("RFI")[2] regarding increasing transparency in markets for or related to U.S. Treasury securities ("Treasury markets").

Despite the importance of the U.S. Treasury markets to the global financial system, regulators still do not have all the tools necessary to adequately oversee this market. Many blind spots remain, particularly in the cash and repurchase agreements ("repo") markets, because a significant proportion of Treasury securities and repo transaction activity is performed on a bilateral basis without data reporting requirements or oversight by a central clearinghouse. For instance, high-frequency trading firms, which do not have to register with the Securities and Exchange Commission ("SEC") or may not be members of the Financial Industry Regulatory Authority ("FINRA"), account for more than 50 percent of the total trading volume in the U.S. Treasury cash markets on any given day.[3] As a result, investors, other market participants, and even regulators have little insight into a majority of these transactions because these firms are not required to report their transaction data or central clear their trades.

This lack of transparency into the Treasury markets has hamstrung the ability of regulators to maintain fair, orderly, and efficient markets and to ensure adequate liquidity in periods of

1 Better Markets is a non-profit, non-partisan, and independent organization founded in the wake of the 2008 financial crisis to promote the public interest in the financial markets, support the financial reform of Wall Street, and make our financial system work for all Americans again. Better Markets works with allies—including many in finance—to promote pro-market, pro-business, and pro-growth policies that help build a stronger, safer financial system that protects and promotes Americans' jobs, savings, retirements, and more.

2 Notice Seeking Public Comment on Additional Transparency for Secondary Market Transactions of Treasury Securities, 87 Fed. Reg. 38,359 (June 27, 2022).

3 U.S. Department of Treasury, Joint Staff Report: The U.S. Treasury Market on October 15, 2014 21 (July 13, 2015).

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exceptional market stress. The lack of transparency in one of the most important markets in the world has contributed to several liquidity crises over the past decade, including the March 2020 turmoil.[4] We commend Treasury for exploring these challenges through the RFI, and we advocate in support of additional reforms that will increase transparency in the Treasury markets, better equip regulators and market participants alike to deal with the risks in these markets, and ultimately reduce the need for extraordinary government intervention to prevent financial crises.

BACKGROUND

The Treasury markets have a long history as one of the most important and foundational financial markets in the global financial system. Since the sale of the first U.S. Treasury securities ("Treasury" or "Treasuries") in 1790, the U.S. Treasury securities market has developed into the largest and most liquid market in the world and serves as the foundation of the global financial system. Treasuries are broadly viewed as the primary global "risk free" asset, and so the yields of Treasuries are utilized as the benchmark for determining the prices of virtually all other financial assets. The yields of Treasuries serve as the risk-free rate that is used for discounting of future cash flows; they also serve as the risk-free basis for determining the price/yield of other debt by "adding on" a risk premium.

Additionally, as the global risk-free asset, Treasuries serve many other roles in the global financial system. Because they are a cash-like asset that provides a financial return, they are highly desirable as an investment and as support for other financial transactions. As an investment, they represent the deepest and most liquid market in the world and are held in significant quantities by foreign governments, banks, and large investment management firms. Of the $18.1 trillion of Treasury debt privately held as of March of this year, $7.8 trillion was held by foreign governments, $4.6 trillion by mutual and pension funds, and $1.8 trillion by depository institutions.[5] Hedge funds in particular hold them as part of a more complicated investment strategy to profit from the basis between the cash and futures market. Additionally, because they are seen as a "safe haven" asset, they are used by investors as a hedge against market stress because their value typically rises under stress as investors seek safer assets. Treasuries also are used more functionally to meet margin requirements for derivative agreements and as collateral in funding transactions, particularly repos.

Therefore, markets for or related to Treasuries are critically important to the functioning of the global financial system, and any disruption in those markets can lead to or exacerbate financial instability. Indeed, in recent years there have been a few examples of turmoil in Treasury markets. Most notably, the economic and financial market uncertainty of March 2020 led to a massive

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4 *See, e.g.,* U.S. Department of Treasury, *Recent Disruptions and Potential Reforms in the U.S. Treasury Market: A Staff Progress Report* (Nov. 8, 2021); Annette Vissing-Jørgensen, Bank for International Settlements, *The Treasury market in spring 2020 and the response of the Federal Reserve* (Oct. 2021); Alex Aronovich, Dobrislav Dobrev, and Andre Meldrum, *The Treasury Market Flash Event of February 25, 2021*, FEDS Notes, Washington: Board of Governors of the Federal Reserve (May 14, 2021).

5 Data obtained from United States Treasury, *Treasury Bulletin* (September 2022), https://fiscal.treasury.gov/reports-statements/treasury-bulletin/.

demand for liquidity, putting pressure on the cash Treasury market from large-scale sales of Treasuries for cash and also exerting pressure on the repo market as many firms sought short-term funding. In response, the Federal Reserve purchased trillions of dollars of Treasuries and set up special repo facilities to facilitate transactions in the repo markets.

Robust federal regulation of the markets were not put in place until the 1980s. Following the collapse of several firms that traded in government securities, in 1986 the Government Securities Act was passed and signed into law. The bill focused on bringing activities related to Treasuries into the regulatory fold to give the government more oversight and transparency into the markets. Brokers and dealers of government securities were required to register with the appropriate regulatory agency; non-bank dealers being required to register with the SEC; and clearinghouses of government securities were put under the SEC's regulatory authority. By 2000, all interdealer broker ("IDB") platform users were members of central counterparties, and their trades were therefore centrally cleared.[6]

However, over time – as with markets for other assets – technological advancements provided a faster, simpler means of trading government securities and at the same time led to dealer fragmentation within Treasury markets. Inevitably, there has been a significant rise of algorithmic trading and so-called principal trading firms ("PTFs") or high-frequency trading firms. These firms, as noted above, are able to trade without registering with the SEC or trading through a clearing counterparty. They account for over 50 percent of the volume reported on IDB platforms.[7] That is a significant portion of trading in the Treasury cash markets for which regulators and other market participants have no visibility.

Similarly, the repo markets lack full visibility into market activity from non-centrally cleared bilateral repo transactions; that is, repo transactions that take place directly between two parties without a clearing intermediary. According to a report from the Inter-Agency Working Group for Treasury Market Surveillance ("IAWG report"), "[n]on-centrally cleared bilateral repo represents a significant portion of the Treasury market, roughly equal in size to centrally cleared repo."[8] Again, that is a significant portion of the market into which regulators and other market participants have limited or no visibility.

<u>Comments</u>

I. Transparency Is Necessary for Financial Stability and Market Functioning

The lack of visibility in the Treasury markets undermines regulators' ability to monitor risks in those markets, to understand how those risks evolve into potentially systemic risks, and to

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6 Treasury Market Practices Group, *White Paper on Clearing and Settlement in the Secondary Market for U.S. Treasury Securities*, Federal Reserve Bank of New York 2 (2018).

7 *See* DTCC, *More Clearing, Less Risk: Increasing Centrally Cleared Activity in the U.S. Treasury Cash Market* (May 2021), https://www.dtcc.com/-/media/Files/PDFs/DTCC-US-Treasury-Whitepaper.pdf.

8 U.S. Department of Treasury, *Recent Disruptions and Potential Reforms in the U.S. Treasury Market: A Staff Progress Report* 4 (Nov. 8, 2021).

react to them in real time. For example, during the volatile round trip in prices that took place on October 15, 2014, the 10-year Treasury bond experienced unusual volatility as it dropped and recovered an extraordinary 1.6 percent in a matter of 12 minutes.[9] While other electronically traded markets have experienced similar moments of volatility throughout their own histories, this move in the Treasury markets was swift and unprecedented.[10] A joint staff report highlighted the lack of transparency and regulatory access to data:

> Following the October 2014 disruption, analysis found that diversity in trading venues and participants and fragmented and incomplete data reporting had left market participants and individual regulatory agencies with only a very limited view of Treasury risk transfer and price discovery. These gaps posed challenges to understanding the causes of the flash rally.[11]

As pointed out in the report, an absence of data not only leads to an inability to identify, monitor, and assess risks but also affects robust price discovery. As a consequence, regulatory agencies are unable to fulfil their obligations to monitor and mitigate risks to financial stability. In addition, market participants are unable to gain a full understanding of the market, thus inhibiting the provision of liquidity across the isolated pockets of visibility.

Indeed, after the October 2014 turmoil, regulators were unable to perform an assessment of what caused the disruption in the Treasury markets simply because they did not have the necessary data. That is, they were unable to analyze or reconstruct events at any given point in time, nor were they able to monitor risks and anomalies as they were unfolding. Furthermore, without sufficient data, regulators are unable to design regulations to mitigate those issues over the long run. An inability to mitigate risks in the Treasury markets is especially consequential—and dangerous—considering the importance of Treasury markets to global financial stability. Such a lack of visibility and transparency must not be allowed to continue.

Transparency, at least for regulatory agencies, is a fundamental prerequisite for financial stability. Even if transparency is limited for market participants, there must be no limitations on the level of transparency for regulatory agencies. The agencies must have access to real-time or near real-time information to monitor, assess, and mitigate risks as they are unfolding. The data must also be comprehensive and include as much information as practicable. That will not only facilitate risk management among the dealers and clearinghouses themselves but also allow regulators to mitigate risk. In particular, robust data access will allow the Federal Reserve to understand how most efficiently to deploy support to the Treasury markets when necessary (and to do so as quickly as possible to reduce the overall amount of support necessary). It will also facilitate the development of appropriate and targeted regulations that limit the type of exacerbated stress that we have seen repeatedly in Treasury markets. The benefits of increased transparency in

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9 Zachary S. Levine, Scott A. Hale, and Luciano Floridi, *The October 2014 United States Treasury bond flash crash and the contributory effect of mini flash crashes*, PLOS One (Nov. 1, 2017), https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5665520/.

10 U.S. Department of Treasury, *Recent Disruptions and Potential Reforms in the U.S. Treasury Market: A Staff Progress Report* 18 (Nov. 8, 2021).

11 *Id.*

the Treasury markets are monumental, considering the paramount role they play in the global financial system, and they far outweigh any claimed drawbacks or costs.

While there may be some risks to increased public reporting, surely those risks cannot outweigh the potential benefits to the markets. The RFI notes that "[s]ome 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."[12] Even if this argument is accepted on its face as being currently true, market participants have proven over and over that they can and do adapt to new regulations over time. At most, these concerns support incremental change, not a continued failure to require robust reporting. Accordingly, for example, increased public transparency could be introduced over one to two years as market participants adjust. This effect was recognized in the IAWG report:

> It was decided to start by releasing weekly trading volumes aggregated by security type, tenor, on- vs. off-the-run, and interdealer or dealer-to-customer market segment. 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.[13]

Considering how consequential these markets are, they should not be the exception to the market principle that more transparency is better for all market participants. Transparency enhances capital allocation efficiency, improves price discovery, and perhaps most important, strengthens the ability of regulators to prevent or mitigate potentially catastrophic instability. That principle is especially important for the Treasury markets, particularly during periods of stress. Without this transparency, during periods of stress, liquidity will not flow to where it is needed most because buyers/lenders will not be able to be easily matched to sellers/borrowers. As has been shown multiple times – most notably in March 2020 – the large, capitalized dealers have been reluctant to absorb the excess volume of sellers/borrowers in periods of stress, making it critical that as much of the the excess demand can be fulfilled elsewhere in the markets as possible. Central clearing can go a long way to addressing this issue, but absent requiring more parties to participate in central clearing, enhanced transparency is an absolute necessity. Even with central clearing, maximum transparency is key.

Transparency should be at the frequency, granularity, and standardization that most effectively facilitates market transactions between participants, especially for those outside of the largest dealers that will need to absorb excess volume in periods of stress. That level of frequency, granularity, and standardization must be at the highest level achievable through modern technology. At the very least, disclosure for the Treasury markets should be similar to the disclosures that are made in the corporate bond markets. For example, the RFI asks if trades in different market segments or on different venues should be displayed differently, i.e., non-standardized. Other than reducing one-time system transition costs for market participants, there

[12] RFI at 38,261.
[13] U.S. Department of Treasury, *Recent Disruptions and Potential Reforms in the U.S. Treasury Market: A Staff Progress Report* 27-28 (Nov. 8, 2021).

is no reason trades in different market segments or on different venues should be displayed differently. That would be an inefficient way to manage markets, complicate visibility across markets for both regulatory agencies and market participants, and allow for potential arbitrage opportunities.

Additionally, the RFI asks if transparency should differ based on security type or characteristics (e.g., on-the-run or off-the-run). This would go against the purpose of transparency and again would be inefficient, complicate visibility, and allow for potential arbitrage opportunities. That is, transparency cannot be a pick-and-choose exercise; a lack of uniformity will create other issues and risks that did not exist when there was less transparency and markets were more siloed. There may be legitimate reasons to limit transparency for specific and special circumstances, at least in the short term, but these limitations must be the exception and not rules that apply to broad parts of markets or to categories of market participants.

Furthermore, it simply cannot be the case that the Federal Reserve continues to be the buyer to every seller and lender to every borrower in periods of stress. Without transparency, unfortunately, this will continue to hold true. Indeed, the Federal Reserve's backstopping role has become entrenched in the repo markets since the Federal Reserve put in place its standing repo facilities that are designed to do exactly that. Exemplifying—perhaps epitomizing—that role was the massive scale at which the Federal Reserve purchased Treasuries throughout the 2020 COVID-19 pandemic. Yet markets are harmed more by Federal Reserve actions than they would be by transparency, since that standing governmental guarantee increases moral hazard and therefore risk-taking. Ultimately, that means greater risk to the taxpayer, the ultimate backstop.

Efficiency of buyer-seller/lender-borrower matching must be prioritized to ensure excess demand for liquidity provision can be handled as much as possible by private market participants. As noted, that is achieved through transparency, along with central clearing. The regulatory agencies have already made efforts to achieve this goal through various rulemakings, which are described in depth below.

II. Increased Central Clearing Would Help Ensure Transparency for Both Regulatory Agencies and Market Participants and Would Also Support the Smooth Functioning of the Markets for Treasury Securities in Periods of Stress

Increased clearing of transactions within both the cash and repo Treasury markets would naturally enhance the level of transparency for both regulatory agencies and market participants. That is because in central clearing, the clearinghouse serves as the counterparty to each transaction and therefore centrally manages all trades, the data associated with them, and the related risk management. Most notably, the SEC should take action to expand the amount of clearing performed through the Fixed Income Clearing Corporation ("FICC"), which centrally clears both cash and repo Treasury transactions. FICC is under the regulatory authority of the SEC, and certain regulatory modifications could be made to increase cleared activity and therefore the transparency that comes with it.

As noted by The Group of Thirty in their recent report on Treasury markets, this should start with requiring cash transactions intermediated by IDBs and all repo transactions to be conducted through central clearing.[14] This should include all transactions conducted both between FICC members and between FICC members and non-members. This approach would ensure that all transactions in which a FICC member is a party are being centrally cleared, regardless of whether the other party to the transaction is an FICC member. That is, any transaction involving a FICC member must be centrally cleared and all reporting requirements met. Additionally, all repo transactions should be required to be cleared. Of course, exceptions could be granted to central banks and natural persons, but the requirement should apply to leveraged funds, such as hedge funds, open-end funds, and money market funds. For both cash and repo trades, it is in the interest of all parties to increase the percentage of transactions that are centrally cleared.

These requirements would enhance transparency among market participants and provide regulatory agencies with the data necessary to manage and mitigate risks to financial stability. It would also support the smooth and efficient functioning of the markets by increasing visibility and more efficiently matching buyers/lenders with sellers/borrowers.

III. Regulators Continue to Take Necessary Steps to Enhance Transparency in Treasury Markets through the Rulemaking Process

a. Advancements in FINRA's TRACE Reporting System for U.S. Treasuries

In response to the unprecedented gyrations in the market for U.S. Treasuries that occurred in October 2014 and public comments submitted to the U.S. Treasury Department in response to a Request for Information on structural changes to the U.S. Treasury markets, FINRA finalized a rule requiring its members to report U.S. Treasury transactions to the Trade Reporting and Compliance Engine (TRACE) reporting system.[15] Requiring reporting to the TRACE reporting system was one way for regulators to have more insight into the U.S. Treasury market that they did not have during or after the events of October 2014. Regulators across the federal government continue to make important improvements to increase the number of U.S. Treasury transactions that are reported to the TRACE reporting system and the frequency with which those transactions are reported.

While these changes do not necessarily increase the number of transactions that are centrally cleared in the U.S. Treasury markets, they still provide market participants and regulators important insights that they did not have in 2014. And while Better Markets supports increasing transparency in these markets by increasing the percentage of transactions that are centrally cleared, increasing the percentage of transactions that are being reported to the TRACE system remains an important step to give regulators and market participants access to transaction data in as close to real time as possible.

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14 *See* Group of Thirty, *U.S. Treasury Markets: Steps Toward Increased Resilience Status Update 2022* (June 2022), https://group30.org/images/uploads/publications/G30_Treasury-Mkts-UPDATE_Final_Report.pdf.

15 81 Fed. Reg. 73,167 (October 24, 2016).

Building on actions to require Treasuries transaction reporting to the TRACE reporting system by FINRA members, the Federal Reserve adopted a rule in October 2021 to require certain other financial institutions to report Treasuries transactions to the TRACE reporting system.[16] Specifically, the rule requires "[e]very national bank, state member bank, state non-member bank, savings association, or U.S. branch and agency of a foreign bank filing a Notice of Government Securities Broker or Government Dealer Activities Form…with average daily transaction volumes of over $100 million for U.S. Treasury securities" to report transactions to the TRACE reporting system. While this action would not result in all Treasuries transaction data being captured by TRACE, it is a significant step.[17] This rule will help to enhance transparency in the Treasury markets by increasing the percentage of transactions being reported to the TRACE reporting system.

Similarly, FINRA has recently proposed further changes to the TRACE reporting system in an effort to "enhance the regulatory audit trail" and to ensure that data is reported "in a more timely manner."[18] Specifically, FINRA's proposed rule would require Members to report U.S. Treasury transaction data in the smallest increment available to the Member and as soon as practicable, but no later than 60 minutes following a transaction.[19] These changes would provide more granular and rapid transaction data that benefits regulators and market participants understand. This is another example of an important step regulators are taking to enhance transparency in our U.S. Treasury markets.

b. *Treating PTFs as "Dealers" and "Government Securities Dealers"*

As mentioned previously, practically all users of interdealer broker platforms were members of a central counterparty, meaning nearly all trades of Government securities were centrally cleared through 2000.[20] The rise of electronic trading strategies by PTFs in the past two decades has materially reduced the percentage of Treasuries transactions that are centrally cleared. These PTFs have become so prevalent in the Treasury markets that they represent nearly half of all trading on interdealer broker platforms.[21] Despite the outsized role PTFs perform in the Treasury markets, they are not currently required to be registered with the Securities and Exchange Commission ("SEC") as a dealer or government securities dealer, and therefore they are not

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[16] Agency Information Collection Activities: Announcement of Board Approval Under Delegated Authority and Submission to OMB, 86 Fed. Reg. 59,716 (October 28, 2021).

[17] 86 Fed. Reg. 59,717.

[18] Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change To Amend FINRA Rule 6730 To Enhance TRACE Reporting Obligations for U.S. Treasury Securities, 87 Fed. Reg. 33,844, 33,845 (June 3, 2022).

[19] 87 Fed. Reg. 33,844.

[20] U.S. Department of Treasury, *Recent Disruptions and Potential Reforms in the U.S. Treasury Market: A Staff Progress Report* 6 (Nov. 8, 2021); Treasury Market Practices Group, *White Paper on Clearing and Settlement in the Secondary Market for U.S. Treasury Securities,* Federal Reserve Board of New York 2 (2018).

[21] Further Definition of "As a Part of a Regular Business" in the Definition of Dealer and Government Securities Dealer, 87 Fed. Reg. 23,054, 23,072 (April 18, 2022).

required to be members of a self-regulatory organization ("SRO") such as FINRA and report their transactions to FINRA's TRACE system.[22]

A dealer is defined by the Securities Exchange Act as "any person engaged in the business of buying and selling securities for such person's own account," excluding "a person that buys or sells securities…for such person's own account…but not as a part of a regular business."[23] The second part of the definition is generally referred to as the "trader" exception and is meant to draw a distinction between a dealer, as defined in the Securities Exchange Act, and an ordinary investor that trades regularly for their own account but not as a part of a regular business.[24] The distinction between dealer and trader has been around since Louis Loss published his treatise on securities law in 1951, entitled "Securities Regulation." However, the rise in algorithmic, electronic trading by PTFs has blurred the line between dealer and trader in recent years. In general, PTFs have relied on the trader exception to avoid having to register with the Commission as "dealers" or "government securities dealers." However, PTFs have become such a source of liquidity by providing a majority of the trading volume in these markets that they have become de facto market makers. The Commission and the courts have concluded that there is a point beyond which trading in one's own account transitions out of the realm of the trader's exception and into the realm of the dealer. The Commission has identified "acting as a 'market maker' or a 'de factor market maker whereby market professionals or the public look to the firm for liquidity,' as a factor that indicates 'dealer' status."[25]

Better Markets supports efforts to treat market participants performing similar market activities similarly, and the SEC's proposed rule to expand the definition of government securities dealer to incorporate PTFs stands as a cardinal example. Regulation of these firms as dealers will confer numerous benefits in terms of transparency, market stability, and investor protection. As explained in the proposed rule,[26] dealers are required to register with the Commission, join an SRO, and adhere to a comprehensive regulatory regime. That framework includes provisions that limit risk and promote financial responsibility through net capital requirements; promote transparency through reporting and disclosure requirements; facilitate regulatory oversight through books and records requirements and the examination process; and curb abusive conduct through dealer-specific anti-manipulation and anti-fraud rules. Moreover, registered dealers are subject to the rules and enforcement authorities of the SROs, including reporting TRACE-Eligible Securities, such as Treasury securities, to FINRA's TRACE system. Government securities

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22 FINRA Rule 6730(a)(1) requires members of FINRA to report TRACE-Eligible Securities, including Treasury securities.

23 Securities Exchange Act of 1934, 15 U.S.C. § 78c(a)5.

24 Louis Loss, *Securities Regulation* 722 (1st ed. 1951) ("One aspect of the 'business' concept is the matter of drawing the line between a 'dealer' and a trader—an ordinary investor who buys and sells for his own account with some frequency").

25 Definition of Terms in and Specific Exemption for Banks, Savings Associations, and Savings Banks Under Sections 3(a)(4) and 3(a)(5) of the Securities Exchange Act of 1934, Exchange Act Release No. 46745 (Oct. 30, 2002), 67 FR 67496, 67498–67500 (Nov. 5, 2002) ("2002 Release") (stating that a person generally may satisfy the definition, and therefore, be acting as a dealer in the securities markets by conducting various activities, including "acting as a market maker or specialist on an organized exchange or trading system").

26 87 Fed. Reg. 23,054, 23,078-79.

dealers, in particular, are further subject to rules issued by the Treasury that concern financial responsibility, capital requirements, recordkeeping, reports and audits, and large position reporting. Additionally, the proposed rule will promote fairness and competition among registered and unregistered dealers by applying similar rules to all dealer activities that meet the proposed standard.

While this proposed rule may not enhance central clearing of Treasury securities specifically, it will give regulators and other market participants greater insight into the market making activities of a wide swath of the Treasury markets. Specifically, this proposed rule will greatly enhance the transparency of Treasury markets for market participants and regulators by requiring PTFs, who perform a majority of the trading in Treasury markets, to report their transaction data to the FINRA TRACE reporting system.

c. Regulatory Oversight of Government Securities Alternative Trading Systems

On a related front, the SEC has proposed a rule to eliminate the exemption for Government Securities Alternative Trading Systems (ATS) from compliance with Regulation ATS and to require that Communication Protocol Systems, namely Request-for-Quote (RFQ) protocols, must register as an exchange or under Regulation ATS. These reforms will enhance transparency, bring more fair competition, and above all, result in stronger investor protections in the government securities markets. The disclosures that will be required of Government Securities ATSs via Regulation ATS will result in greater insight for investors on Government Securities ATS trading services, fees, conflicts of interest, market data, order types, and trading algorithms. Moreover, requiring Government Securities ATSs that trade a sufficient volume of securities to comply with the Fair Access Rule and Reg SCI is an appropriately tailored reform to help ensure fair and orderly markets and system integrity.

Better Markets supports the proposed rule because it will undoubtedly be useful to investors who seek to learn more about the potential conflicts of interest that can arise when the business interests of a broker-dealer operator or its affiliates clash with the interests of market participants that trade on Government Securities ATSs. Such conflicts represent a significant and growing area of concern for investors. The SEC is to be commended for requiring disclosure of these conflicts. As a result, market participants will be better equipped to assess whether they are trading on a level playing field with other subscribers or instead are likely to fall victim to abusive and unfair practices. By eliminating the exemption from securities regulation that Government Securities ATSs have enjoyed for far too long, investors, market participants, and regulators will gain additional insight into the trading platforms used to trade government securities, such as Treasuries. These reforms will help address the overarching and compelling need for greater transparency, fairness, and stability in our markets, most notably the Treasury markets.

CONCLUSION

We hope these comments are helpful as the Commission finalizes the Proposal.

Sincerely,

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