U.S. DEPARTMENT OF THE TREASURY

## Press Center

# Remarks by Counselor Antonio Weiss at the Evolving Structure of the U.S. Treasu Market: Second Annual Conference

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Treasury Markets: Data, Oversight and Transparency

*As Prepared For Delivery*

First, thank you to Bill Dudley and everyone at the Federal Reserve Bank of New York for hosting this conference, and to the other agencies for leadership on the topics we are here to discuss. Our close partnership has been key to this effort, and it is again in evidence today.
The Treasury market is the deepest, most liquid securities market in the world, and our collective responsibility is to ensure this remains the case decades to come.

This group knows well the critical and unique role Treasury markets play in the global economy—providing the world's risk-free benchmark, facilitating the implementation of monetary policy, offering a reliable store of value for savers around the world, helping businesses to manage th risks, and, of course, financing the federal government.

It was with these vital roles in mind that we launched the most comprehensive review of the Treasury market since the 1990s. The market has ev dramatically. In the late 1990s, there was little electronic trading in the Treasury cash market—indeed, the first major electronic platform wasn't introduced until 1999. Today, transactions on electronic inter-dealer platforms account for about half of daily Treasury volumes. Before electror inter-dealer platforms, trades were primarily executed via voice brokerage in New York, London and Tokyo. Today, many market participants co in microseconds around the world, and technology is an increasingly important source of competitive advantage. In the late 1990s, intermediatic cash Treasuries was dominated by a handful of institutions, accounting for most of the volume in secondary markets. Today, the same institution dominant on the dealer-to-client side—account for less than half of the inter-dealer broker market, reflecting the rise of new entrants and new for competition.

To explore these and other structural changes, Treasury issued a Request for Information (RFI) in January, seeking public comment on the evolut the Treasury market; trading and risk management practices; official sector data access; and the benefits and risks of increased public disclosure market activity. Three key themes emerged from the comment letters. First, commenters were nearly unanimous in their support of comprehens collection by the official sector. Second, feedback from market participants presented competing views on public dissemination of transaction da Third, many called for expanded oversight by the official sector. These comments have informed the first phase of our work on Treasury market

Let's take stock of what has been accomplished.

**WHAT WE'VE ACCOMPLISHED SO FAR**

*DATA*

We committed to develop a plan by year-end for comprehensive collection of trading data for cash Treasuries. The official sector needs access to comprehensive data on a timely basis. And it requires effective means for sharing that data across agencies to interpret market dynamics.

When we began our review, following the volatility in Treasury markets on October 15th, 2014, we quickly learned that we faced major constrair readily available data. Indeed, much of the eight months it took to produce the Joint Staff Report related to data collection, data harmonization a analysis across agencies.

Last week's SEC approval of the FINRA TRACE reporting rule for Treasuries was a landmark event and a significant step forward in official sec collection. Once implemented next July, FINRA reporting will capture roughly 90 percent of Treasury market transactions. Importantly, it will trades of FINRA members with non-FINRA member counterparties, and also capture trading on major platforms, such as BrokerTec and eSpeed

To help close the gap, the Federal Reserve Board announced last Friday its plans to collect Treasury market transaction data from banks and to st negotiations to use FINRA as its collection agent. This represents another key step, moving us closer to comprehensive, standardized data collec

While these measures will capture much information on transactions, we are committed to full coverage—no exceptions—and to creating a level field for reporting requirements.

The key remaining piece of this puzzle is PTFs, principal trading firms.

PTFs account for a majority of the trading volume in the inter-dealer market, but generally operate in Treasury markets through unregistered enti thus won't directly report trades to FINRA. While data collection from inter-dealer platforms will capture PTF trades, it will not provide the par level granularity that would accompany direct PTF reporting—granularity that is critical for monitoring market dynamics.

Treasury strongly supports registration of all PTF entities that transact in our nation's debt.

Of course, harnessing the full value of this data requires joint analysis across the regulatory community. This is why earlier this year we signed a memorandum of understanding for data sharing among the agencies.

This will aid our analysis across markets of already-collected data, as well as the substantial new data that will begin to flow once TRACE is implemented. Going forward, it is essential that we continue to work toward continuous data sharing and analysis across cash Treasury and relat derivatives markets.

*OVERSIGHT*

Let me turn to oversight.

Last week FINRA announced its plans to modernize key rules governing trading practices that apply to government securities. These rules, whic address "Front Running of Block Transactions" and "Prohibitions Against Trading Ahead of Customer Orders," among dozens of other topics, w provide investors with common-sense protections available in other markets. We applaud FINRA's decision to re-examine exemptions that have outlived their time.

The SEC is updating rules for alternative trading platforms, known as Reg ATS, and has posed initial questions for public comment on whether T trading platforms should be included. We strongly support applying Reg ATS to Treasury platforms. While some platforms have registered and are considering this step, eliminating this regulatory loophole is inevitable and necessary.

And, while I just noted the value of PTF registration for effective market monitoring, this is also essential for regulatory oversight of their activit markets. We fully support the SEC's efforts on both ATS and PTFs and encourage timely resolution of both matters.

For its part, the CFTC is working through an essential new rule, "Reg AT," to address the risks of automated trading in futures markets generally this is broader than just Treasuries, we believe it advances important oversight goals, including registration of traders, assurance of adequate pre- risk controls, and appropriate oversight of algorithms.

When finalized, the rule will be a leap forward, updating the risk management framework for futures markets, including the market for Treasury and related derivatives, to account for the new reality of trading practices. We look forward to the finalization and implementation of Reg AT as practicable.

As we approach the close of this first phase concerning data and oversight, we naturally turn to the question of data transparency.

**TRANSPARENCY**

One critical question is whether and how Treasury data should be disseminated to the public. The RFI responses provide important consideration we will need to balance as we craft future policy. Of those commenters that addressed the issue, a third expressed concerns regarding public dissemination. They asserted that transparency would impair liquidity in the secondary market and increase the costs of market making.

Those who favored greater public transparency highlighted the enhanced potential for market participants to assess quality of execution, promote competition, encourage new entrants, strengthen risk management practices, and foster a more resilient market structure.

Treasury has based its analysis of transparency on the unique role of Treasuries in the global marketplace, as well as our study of the impact of transparency on other markets.

We see compelling benefits. For example, in the corporate bond market, where reporting requirements were introduced in July 2002, there has b roughly 50 percent compression of variation in mark-to-market valuations of bond holdings in mutual funds. Transaction costs were also reduce half, saving investors approximately $1 billion annually. There is also evidence of improved competition through new entrants and reduced marl share concentration, fostering a more diverse and resilient market structure.

Furthermore, a move towards greater transparency in cash Treasuries is consistent with the trend in related markets. Several key fixed income m that are priced and traded relative to cash Treasuries—such as Treasury futures, agency debt, agency MBS and other securitized products, corpor bonds, and interest rate swaps—have already instituted post-trade transparency.

Treasury remains committed to close and careful review of the data before making any determinations. But we believe the debate should shift fr *whether* to seek increased transparency to *how*, *when*, and on *what basis*.

We have heard the concerns regarding potential risks of increased transparency, and believe that design is key. Properly implemented, greater transparency in the Treasury market can offer substantial benefits, while protecting market functioning and liquidity.

At the outset, we should clarify that we are talking about post-trade transparency, *i.e* ., disseminating information about trades that have already occurred. Pre-trade transparency in the Treasury market, given its structure, is not a step we would recommend at this time and requires further s

To manage potential risks, we see three primary strategies: first, appropriate time delays; second, limitations on disclosure of size for large trades third, a phased-in, gradual approach over time. I will briefly describe these strategies, and discuss how they might be applied to different segmen the Treasury market.

First, intermediaries are understandably concerned that transactions may be reported before they can hedge or find the other side of a trade, espec less liquid products, exposing market-making positions to potential counterparties.

However, carefully calibrated delays to reporting and dissemination of data for different market segments can provide dealers sufficient time to r these inherent risks from activity on behalf of clients.

Second, we recognize that—due to the depth and multiple functions of the Treasury market—trades often occur in large "block" sizes that could excessive market movement, if disclosed. For example, an underwriter of corporate bonds relies on the ability to transact in block sizes when se interest rate hedges. The largest investors—pension funds, sovereigns or mutual funds—also rely on block trades. But the price impact could be by capping the size of trades disclosed. And similar to delays, different caps could be set for different market segments. These approaches were successful in protecting information on block trades in corporate bonds and agency MBS. For example, MBS trade size reporting is currently ca $25 million for TBAs for good delivery, and $10 million for specified mortgage pools.

Third, gradual phasing in of public transparency can facilitate thoughtful deliberation and refinement of policy. In the corporate bond experience ins had the added benefit of facilitating independent analysis of the effects of transparency on different market segments. All told, the implemen TRACE for corporate bonds took more than three years and involved extensive consultation and adaptation along the way.

So let us be clear. Transparency is not all or nothing; and one size may not fit all segments of the Treasury market. These three strategies (time size limits, and phase-in), should be applied to different segments of the Treasury market based on characteristics such as their liquidity and curr of transparency. For example, on-the-run and off-the-run Treasury securities would reasonably require different time delays, primarily because c run securities need to be inventoried by market makers for longer periods of time (days or weeks rather than minutes or seconds).

TIPS would likely need lower size limits for reporting than nominal coupon securities. Likewise, securities with high duration, such as the 30-ye bond, may require different treatment than a 2-year note. Finally, the reporting rules for new securities, such as the floating rate note, would reas require different phase-in periods.

We should also explore new concepts. For example, given the large number of transactions in Treasuries, a random sample of transactions publi closer to real-time, with the remainder subject to a greater lag, may garner the benefits of transparency while incurring less risk. At the same tim are mindful that a complex alternative could bring its own costs and limit effectiveness.

Alongside these potential strategies, the phase-in of any transparency regime must include careful monitoring to ensure continued smooth marke functioning.

**CONCLUSION**

Our first principle with regard to the Treasury market is "do no harm."

But the marketplace is rapidly changing, and this leads to a second principle: our regulatory framework must evolve to keep pace with the new r structure. Today, there are a host of new entities and venues for trading in Treasuries: some are registered, some are not; some report data to the sector, some do not.

The first phase of the Treasury market review will lead to more uniform oversight and a more level playing field. Our goal is this: all significan participants in the Treasury market should be subject to comprehensive oversight and trade reporting requirements.

Further, in our view, trading in our nation's debt should be transparent to the public. The key questions are ones of design: On what basis? Subj what limitations? And over what implementation period? The next panel will, I'm sure, have strong views on all of these issues.

We have made significant strides in the past year to reform the data and oversight regime for the Treasury market. These steps will help regulato monitor and supervise this fundamental market, and instill confidence in its participants that they are operating on a level playing field.

As we move forward with this review, we will always safeguard the status of the Treasury market as the deepest, most-liquid market in the world ensure it continues to serve its vital roles in our economy and the global financial system.

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