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December 14, 2023

Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-0609

**Via email to rule-comments@sec.gov**

**Re: File No. SR-FINRA-2023-015 – Proposed Rule Change Relating to Dissemination of Information on Individual Transactions in U.S. Treasury Securities and Related Fees**

Dear Ms. Countryman:

This letter is being submitted by the Financial Industry Regulatory Authority, Inc. ("FINRA") in response to comments received by the Securities and Exchange Commission ("SEC" or "Commission") regarding the above-referenced rule filing. The proposed rule change would amend FINRA Rules 6710 and 6750 to provide that FINRA will disseminate information on individual transactions in U.S. Treasury Securities that are on-the-run nominal coupons reported to FINRA's Trade Reporting and Compliance Engine ("TRACE") on an end-of-day basis with specified dissemination caps for large trades, and amend FINRA Rule 7730 to include U.S. Treasury Securities within the existing fee structure for end-of-day and historic TRACE data.

The Commission published the proposed rule change for public comment in the Federal Register on November 9, 2023.[1] The Commission received six comment letters on the Proposal.[2] Commenters generally supported the Proposal. Some commenters also

1 *See* Securities Exchange Act Release No. 98859 (November 3, 2023), 88 FR 77388 (Notice of Filing of File No. SR-FINRA-2023-015) ("Proposal").

2 *See* Letters from Adam Deyo, to the SEC, dated November 18, 2023; Stephen John Berger, Managing Director Global Head of Government & Regulatory Policy, Citadel Securities, to Vanessa Countryman, Secretary, SEC, dated November 30, 2023 ("Citadel Letter"); Gerard O'Reilly, Co-CEO and Chief Investment Officer & David A. Plecha, Global Head of Fixed Income,

requested additional information in connection with aspects of the Proposal. Below, FINRA responds to the material aspects of the comments received.

FIA-PTG, Dimensional, and Citadel support the proposal, noting the importance of transparency in this segment of the market and the current contrast in the level of post-trade transparency information available for Treasury Securities as compared to other types of securities. Among other things, FIA-PTG agreed with FINRA's analysis and believes that the Proposal is a noteworthy first step to reduce the opacity that exists today.[3] Dimensional also supports the Proposal, noting the benefits of transparency, including reducing information asymmetries in the bond market and enhancing market integrity.[4] Similarly, Citadel cites to empirical evidence and academic research demonstrating that transaction-level post-trade transparency improves price discovery, deepens liquidity, lowers transaction costs, and enhances market resiliency; and believes that transparency would similarly benefit the U.S. Treasury markets—"improving

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Dimensional Fund Advisors LP, to Vanessa Countryman, Secretary, SEC, dated November 30, 2023 ("Dimensional Letter"); Joanna Mallers, Secretary, FIA Principal Traders Group, to Vanessa Countryman, Secretary, SEC, dated November 30, 2023 ("FIA PTG Letter"); Sarah A. Bessin, Deputy General Counsel, Investment Company Institute, to Vanessa Countryman, Secretary, SEC, dated November 30, 2023; and Robert Toomey, Head of Capital Markets/Managing Director & Associate General Counsel & Lindsey Weber Keljo, Head-Asset Management Group, Securities Industry and Financial Markets Association and Securities Industry and Financial Markets Association's Asset Management Group, to Vanessa Countryman, Secretary, SEC, dated November 30, 2023 ("SIFMA Letter").

[3] FIA-PTG also encourages faster reporting and additional transparency for U.S. Treasury Securities. *See* FIA-PTG Letter. Any future proposals in these regards would be based on careful analysis and subject to proposed rule changes filed with the SEC pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934. FIA-PTG commented on other issues relating to the regulation of U.S. Treasury Securities that are not germane to a consideration of the instant proposal and therefore are not responded to herein.

[4] Dimensional also encourages faster reporting and additional transparency for U.S. Treasury Securities. *See* Dimensional Letter. Any future proposals in these regards would be based on careful analysis and subject to proposed rule changes filed with the SEC pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934.

outcomes for investors" and "lowering funding costs for the U.S. government and U.S. taxpayers."[5]

Citadel requested additional information regarding the proposed dissemination caps; specifically, the percentage of total notional volume capped under the proposed framework. FINRA provided data regarding the percentage of transactions that would be capped under the proposed framework in the Proposal.[6] Across all maturities, 0.09 percent of transactions would be capped using September 1, 2022 to February 28, 2023 data.[7] FINRA also has analyzed the percentage of notional volume that would have been capped pursuant to the Proposal. For the two-year, three-year, and five-year notes (which would be subject to a $250 million cap), 14.21 percent, 14.76 percent, and 5.96 percent of notional volume traded, respectively, would have been capped upon dissemination (*i.e.*, because the size of the trade was greater than $250 million); for the seven-year and 10-year notes (which would be subject to a $150 million cap), 15.27 percent and 6.49 percent of notional volume traded, respectively, would have been capped upon dissemination (*i.e.*, because the size of the trade was greater than $150 million); and for the 20-year and 30-year bonds (which would be subject to a $50 million cap), 19.87 percent and 14.87 percent of notional volume traded, respectively, would have been capped upon dissemination (*i.e.*, because the size of the trade was greater than $50 million). Across all maturities, 10.30 percent of notional volume traded would have been capped.

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[5] Citadel also encourages faster reporting and additional transparency for U.S. Treasury Securities. *See* Citadel Letter. Any future proposals in these regards would be based on careful analysis and subject to proposed rule changes filed with the SEC pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934.

[6] *See* Proposal, 88 FR 77388, 77395.

[7] For the two-year, three-year, and five-year notes (which would be subject to a $250 million cap), 0.08 percent, 0.08 percent, and 0.03 percent of transactions, respectively, would be capped upon dissemination (*i.e.*, because the size of the trade was greater than $250 million); for the seven-year and 10-year notes (which would be subject to a $150 million cap), 0.13 percent and 0.05 percent of transactions, respectively, would be capped upon dissemination (*i.e.*, because the size of the trade was greater than $150 million); and for the 20-year and 30-year bonds (which would be subject to a $50 million cap), 0.39 percent and 0.29 percent of transactions, respectively, would be capped upon dissemination (*i.e.*, because the size of the trade was greater than $50 million). *See id*.

SIFMA stated that the Proposal is consistent with a measured and incremental approach to additional transparency in the U.S. Treasury Securities market, and that the Proposal addresses a number of the concerns SIFMA previously expressed in connection with the Treasury Department's request for comment,[8] for example, in that the Proposal is limited to on-the-run nominal coupons, which SIFMA agrees is appropriate because this is the most liquid segment of the U.S. Treasury Securities market.[9] SIFMA also agrees that the proposed end-of-day dissemination approach "is a sufficient mitigant for concerns of real-time information leakage."[10] SIFMA however also requested additional information on the methodology used to determine the level of the proposed dissemination caps.[11]

In the Proposal, FINRA discussed its approach to determining the proposed dissemination caps, which was based on careful analysis and consultation with the Treasury Department.[12] The proposed dissemination caps were designed to take into consideration multiple factors, including primary dealers' feedback to the Treasury Department,[13] the impact of interest rates on Treasury Securities trades across maturities ("dollar duration" or "DV01")[14] as well as an analysis of market liquidity examining the length of time needed for a dealer to liquidate a large trade at the cap sizes for each specific Treasury maturity.

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8 *See* Department of the Treasury, Notice Seeking Public Comment on Additional Transparency for Secondary Market Transactions of Treasury Securities, 87 FR 38259 (June 27, 2022) (Docket No. TREAS–DO–2022–0012) ("Treasury RFI").

9 *See* SIFMA Letter.

10 *Id*.

11 SIFMA also urges caution and a period of study prior to moving forward with additional transparency for U.S. Treasury Securities. *See* SIFMA Letter. Any future proposals in this regard would be based on careful analysis and subject to proposed rule changes filed with the SEC pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934.

12 *See e.g.*, Proposal, 88 FR 77388, 77395.

13 *See* Primary Dealer Feedback on the Transparency Proposal, available at https://home.treasury.gov/system/files/221/Treasury-supplemental-QR-Q12023.pdf.

14 DV01 measures the change in monetary value of a bond for a one basis point change in interest rates.

Specifically, FINRA considered the notional cap sizes suggested by primary dealers' feedback to the Treasury Department (the median cap sizes were $460 million for two-year notes; $250 million for three-year, five-year, and seven-year notes; $170 million for 10-year notes; and $100 million for 20-year and 30-year bonds).[15] The approximate translation of these values to DV01 sizes ranged between $70,000 to $190,000. To maintain a more uniform DV01 across maturities, FINRA in consultation with the Treasury Department considered cap sizes that approximately equated to $100,000 DV01 as a baseline for further analysis. In setting the proposed transaction size dissemination caps, FINRA also considered the percentage of traded market volume that would be disseminated (versus reported) across each maturity and the estimated amount of time to liquidate a large position at the cap size based on the liquidity profile of the different Treasury bond maturities.

In addition, the proposed caps were calibrated to the maturity, liquidity, and trading concentration in the underlying security to preserve the anonymity of market participants trading large transactions. As discussed in the Proposal,

> "In setting the proposed transaction size dissemination caps, FINRA considered both the percentage of traded market volume that would be disseminated (versus reported) across each maturity along with the daily number of unique intermediaries trading each security at or above the cap size for each maturity. This approach balances providing similar levels of transparency across maturities with sensitivity to information leakage concerns regarding reverse engineering of other market participants' identities, positions, or trading strategies. In this regard, FINRA analyzed the concentration of dealer activity and market liquidity in trades above various cap sizes in each specific Treasury maturity."[16]

Specifically, FINRA considered the number of unique intermediaries trading each security at or above the cap size for each maturity during intraday, daily, and monthly periods. To further analyze market concentration and liquidity, FINRA considered trading activity, including the total number of transaction reports, average daily number of transaction reports, and number of days traded, by intermediaries with highest trading volume in 2022 across maturities and trade sizes. FINRA also considered the percentage of trade reports and notional volume that would be capped across maturities with an eye

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15 *See supra* note 13.

16 *See* Proposal, 88 FR 77388, 77395.

towards ensuring that a meaningful portion of transaction data would be disseminated to market participants at the end of the day.[17]

FINRA continues to believe that the Proposal represents an important step in enhancing transparency for U.S. Treasury Securities, which FINRA believes will benefit liquidity and resilience in this critical market, while also mitigating potential information leakage concerns that could negatively impact market behavior.

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FINRA believes that the foregoing responds to the material issues raised by the commenters on the rule filing. If you have any questions, please contact me at (202) 728-8363.

Sincerely,

/s/ Racquel Russell

Racquel L. Russell
Senior Vice President
Director of Capital Markets Policy

[17] FINRA will continue analyzing TRACE data, including considering any implications for changes to cap sizes in the future. Any future proposals in this regard would be based on careful analysis and subject to proposed rule changes filed with the SEC pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934.