

April 21, 2016

David R. Pearl
Office of the Executive Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Re: Notice Seeking Public Comment on the Evolution of the Treasury Market Structure Docket No. TREAS-DO-2015-0013

Dear Mr. Pearl:

MarketAxess Holdings Inc. (“MarketAxess”) and Xtrakter Ltd. (“Trax”)¹ welcome the opportunity to comment on considerations with respect to more comprehensive official sector access to Treasury market data.

Since 1985, Trax and its predecessors have provided the European fixed income markets with a solution for the regulatory reporting of transactions to the competent authorities of the United Kingdom, France, the Netherlands and Belgium. As an Approved Reporting Mechanism (ARM), Trax reports transactions in cash and derivative instruments, including U.S. Treasury transactions, to regulators with high-efficiency, low rejection rates and flexible messaging options (both real-time or batched processing). In 2015, 19 U.S. Treasury primary dealers or their affiliates used Trax’s ARM services for regulatory reporting and Trax processed over 1.1 billion transactions on behalf of its user community. In this regard, we are supportive of the need for the official sector to gain increased access to U.S. Treasury cash market data and activity and believe that Trax’s extensive experience in reporting U.S. Treasury transactions to European regulators should be considered when contemplating the additional infrastructure that would be necessary for market participants to begin reporting comprehensive U.S. Treasury market transaction data to the U.S. official sector.

We have responded to certain of the detailed questions, but we would first make the following high-level comments:

1. Existing reporting regimes should be used for the regulatory reporting of U.S. Treasury transactions. – Although the official sector does not currently receive any regular reporting of U.S. Treasury cash market transactions, regulatory reporting systems have been installed in a variety of other markets, including U.S. corporate bonds (TRACE) and European fixed income

¹ Trax is a wholly-owned subsidiary of MarketAxess Holdings, Inc., a public company listed on Nasdaq and the operator of a leading electronic trading platform for fixed-income securities, and the provider of market data and post-trade services for the global fixed-income markets. Under the Markets in Financial Instruments Directive (MiFID), Trax is an Approved Reporting Mechanism (ARM) to the UK Financial Conduct Authority (FCA) and other European regulators, including for the voluntary reporting of U.S. Treasury cash market transactions.

instruments pursuant to Markets in Financial Instruments Directive I (via TRAX and other regulated ARMs). These existing systems are in current use by nearly every broker, dealer and commercial bank dealer in the fixed income market place, including the primary Treasury dealers. Trax believes that designing and building new infrastructure for the reporting of U.S. Treasuries will result in an exponential increase in time and cost over using the existing alternatives, with no expected benefits to the reporters or the official sector.

Using existing systems, such as TRACE or Trax, would impose fewer burdens on smaller reporters, which could gain efficiencies from current in-place infrastructure and technology (including APIs and reporting rules engines). On an industry-wide basis, we expect that using existing regimes could save hundreds of millions of dollars of development and implementation costs.

Utilising third parties (like Trax) to consolidate and validate reports prior to submission to regulatory authorities helps reduce both technical and operational costs for regulators by reducing the number of submitting participants they are required to connect to and manage. This also helps to ensure that any data received has already been through a process of validation and is as accurate as possible. Accordingly, we recommend that the Treasury Department give strong consideration toward incorporating third party reporting and validation mechanisms (similar to ARMs) into any new reporting regime.

Importantly, although U.S. Treasuries are not mandated to be reported under MiFID I, Trax is currently used to report almost 2,000 U.S. Treasury cash transactions per day. Existing reporting encompasses 24 fields, including price, quantity, counterparty, venue and instrument identifier. Given the extensive validation Trax performs prior to onward submission to the regulator, the rejection rate from the competent authorities is just 0.002%.

2. Reporting should be as simple as possible.

Our responses to the specific questions below reflect our strong view that transaction reporting should be as simple as possible. Our experience with complex transaction reporting requirements is that they are both expensive to implement and maintain and highly likely to result in inaccuracies. Accordingly, in order to meet the goals of mandatory reporting of U.S. Treasury cash transactions, we recommend that any new regime err on the side of simplicity whenever possible (for example, requiring the reporting of all cash Treasury transactions, rather than just the on-the-run issues).

3. The transaction reporting regime should be tailored to its purpose. Ultimately, the fundamental purpose of the transaction reporting regime should drive the answers to many of the detailed questions set forth in the Request for Information. For example, if the primary goal it is to provide increased transparency into the pricing and volumes of the U.S. Treasury markets, transaction reporting should be required in real-time with a relatively low level of granularity. If, however, the intended goal it is to be able to surveil for market abuse or understand market dynamics, T+1 reporting with a relatively greater number of fields should be sufficient.

Specific questions²

3.2 What frequency and type of additional data reporting to the official sector is necessary for it to effectively monitor functioning of the U.S. Treasury markets, including cash, futures, and financing markets?

Our experience with providing transaction reporting services to the FCA and other European authorities through Trax is that T+1 reporting is sufficient to ensure that regulators have a timely picture of market activity and that firms have sufficient time to deliver the required level of accuracy. However, even with a T+1 deadline, many firms have been challenged by the requirement to make accurate transaction reports under MiFID I. The key issues have been incorrect time stamps, failure to identify reportable securities and failing to correctly identify whether a transaction was a buy or a sell.

As stated above, reporting regimes focused on price transparency need to operate on a near real-time basis with a focus on the reporting of primary economic terms only, such as time, quantity and price. If the official sector requires more granular information, reporting firms are likely to need more time to collect the information from middle-office systems that reside outside of the trading systems and personnel that are employed in the front office in order to report such information with any respectable level of accuracy.

We know from experience that one of the key difficulties for reporting firms is identifying which securities are subject to the reporting obligation. For this reason, we would suggest a wide application to all Treasury issues, rather than devising rules as to which are reportable. Under MiFID I, reporting firms have gone to considerable expense to identify which securities are eligible for the regime and often, in any event, over-report (i.e. include all securities) to ensure that they do not miss eligible trades.

3.3 What criteria should be used to determine who should report to the official sector?

We would recommend placing the reporting responsibility on the counterparties to the trade rather than on the venue (as per the trade reporting requirements proposed under MiFID II), so that firms have a single process, regardless of how and where the trade is executed. The purpose of the regime needs also to be taken into account in determining reporting responsibility. For example, if the purpose of the regime is to provide transparency, single-sided reporting avoids the same trade being reported twice.

3.4 Should transaction reporting include identifiers for categories of end investors?

Categorising end investors is likely to prove to be a problematic process. Not only does it require a process to identify into which category complex firms with multiple business lines will fall, but it also requires reporting entities find a way to consistently apply that process. We recommend following the approach adopted in Europe, whereby all firms are identified using a unique Legal Entity Identifier

² We note that this letter does not attempt to respond to each of the questions that the Department has raised in Section III of the Request for Information.

("LEI"). This avoids any difficulties around categorisation and ensures a complete picture of market activity can be established.

3.5 (a) For those instruments subject to official sector reporting requirements, should all transactions be subject to the same reporting time requirement?

In the interests of simplicity, we believe that all transactions should be subject to the same reporting time requirement.

3.5 (b) Should cross market transactions have special indicators to link the different legs of the transactions?

Given the increased complexity involved in ensuring the accuracy of linking the different legs of a transaction, we believe that it is likely to be a costly and error-prone process. Given that complete accuracy difficult to achieve, we would argue against such a requirement on balance.

3.5 (e) Should trade allocations be reported?

With regard to trade allocations, MiFID I allows optionality as to whether trades are reported at the block or allocated level. We have found that this approach has significant drawbacks when analysing the data for the purposes of understanding market dynamics and would therefore argue for a consistent approach. MiFID II will allow brokers to report at the block level and requires fund managers to report at the allocated level. We think this makes sense, as brokers may not know the allocations at the time of execution and fund managers are in a position to report their allocations.

3.5 (f) Should settlement date and/or other settlement terms be reportable?

Settlement date is not currently a reportable field for MiFID transaction reporting in Europe. Any settlement date beyond the standard settlement cycle may impact the agreed price, so there may be value in collecting that information, depending on the ultimate purpose of the reporting regime.

3.5 (g) Are there special considerations/conditions for determining the time that a trade is executed? Does this differ across trade types or venues?

Our experience is that the reporting of trade execution times is a significant source of inaccurate transaction reporting (in particular, accounting for time zone differences). However, it is clearly important for market monitoring purposes, and we therefore believe that time-stamping should not be any more onerous than is strictly necessary.

In Europe, MiFID II is seeking to tighten this requirement by introducing requirements to synchronise trading system clocks. We believe that, whilst this approach will improve accuracy, it is relatively expensive to implement and should be calibrated to reflect the nature of the trading activity. For example, a requirement to synchronise clocks at the level of milliseconds should only be relevant for high frequency trading activity.

3.5 (h) Should transactions executed on an ATS and/or in response to an electronic RFQ be identified as such? Should the specific ATS and/or RFQ platform be identified as part of the transaction report?

MiFID transaction reporting requires the identification of all trading venues as part of the transaction report and we believe this information is helpful in understanding market dynamics. There is no current requirement to report the type of platform or trading protocol used and we do not believe this information is vital or likely to be reported with a high-level of accuracy. We also believe that trading protocols will continue to evolve and it is unlikely that the regulatory definitions would keep up with their development over time.

3.5 (i) Should transaction counterparties be identified uniquely or categorized by counterparty type?

We believe that the reporting of LEIs should be used for the reporting of U.S. Treasury cash transactions as it avoids the ambiguity of categorizing firms into counterparty types. We note that unique identifiers (LEIs) for counterparties are being adopted for transaction reporting in Europe under MiFID II.

3.6 (b) Should transactions, quotes, and/or orders be reported on a real time basis? If not, what should be the reporting standard? How should orders that are executed over multiple days be handled? Are there other special considerations when defining the time of an order?

We only consider real-time reporting to be necessary for the purposes of providing transparency. We note that many participants in the market are already well placed to report on a real-time basis, provided that the report does not require complex information that resides away from front office systems.

3.7 Is it appropriate to have transactions, orders, and quotes time stamped at a certain clock precision (e.g., microsecond) level?

See response to 3.5(g).

3.9 (a) The official sector may consider different methods for receiving transaction data from Treasury markets. For instance, it may rely on existing reporting regimes, or it may seek to build an alternative reporting system. If the latter, what alternative reporting system should be used? What are the costs and benefits with these different approaches? Would one approach impose fewer burdens on reporters than others? If so, why and by how much?

We argue strongly in favour of the re-use of existing reporting systems, rather than building new systems. Since the Financial Crisis, market participants have developed multiple different reporting systems and we believe that these should be re-used and harmonised wherever possible to avoid unnecessary duplication of investment. For example, Trax today receives transaction reports on average for nearly 2,000 trades in U.S. Treasuries per day with an average turnover of \$16.4 billion. Given that these transaction reports are provided to Trax by nearly every primary dealer or their affiliates, Trax could relatively easily form part of a future solution that incorporates third party reporting and validation mechanisms. We believe that any reporting system that has already been tried and tested for cash fixed income transactions, including U.S. Treasuries, would be the most cost-effective way of developing quickly a comprehensive reporting solution for the U.S. Treasury market.

3.10 What additional infrastructure would be necessary for market participants to begin reporting comprehensive U.S. Treasury market transaction data? Should reporting requirements be phased in?

Our experience with new reporting requirements is that it can take some time for firms to be comfortable that they have achieved the required degree of accuracy. We would therefore recommend a phased approach to allow reporting firms to have sufficient time to implement the reporting requirements. We also note that the CFTC struggled to fully implement the new reporting rules for the swaps markets, which were considered by many to be complex. The CFTC did not adopt a phased-in approach and this likely contributed to the CFTC collecting large amounts of data that it was unable to properly organize or analyze.

If you have any questions concerning this letter or our responses to the questions, please feel free to contact us. We would welcome the opportunity to discuss these issues further with the Department of the Treasury.

Yours sincerely,

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