

August 26, 2022

Brian Smith
Deputy Assistant Secretary for Federal Finance
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

*Re: Additional Transparency for Secondary Market Transactions of Treasury Securities;
Docket No. TREAS-DO-2022-0012*

Dear Mr. Smith:

The Vanguard Group, Inc. (Vanguard)¹ appreciates the opportunity to respond to the U.S. Department of Treasury's (Treasury) request for information (RFI) on the potential benefits and risks of additional transparency for secondary market transactions in Treasury securities.² The Treasury market plays a critical role in the global economy, global fixed income markets, and U.S. monetary policy, and Vanguard welcomes reforms that promote a more resilient and liquid market. We commend Treasury and other financial services regulators for the steps that they already have taken to improve Treasury market structure, including the steady, data-driven approach toward increasing post-trade transparency, and we support the continuation of these efforts.

The funds we advise rely on the Treasury markets for a variety of purposes, such as obtaining desired exposures to execute investment strategies, diversifying portfolios, ensuring adequate liquidity, and protecting our clients' capital. Our funds access the Treasury markets through dealers or other intermediaries, often communicating or placing orders electronically or over the phone. Like other market participants, we experienced notable changes in Treasury market liquidity since the onset of the COVID-19 pandemic as the supply of Treasury securities has grown and dealers have adjusted their approach to market making.³

The liquidity event of March 2020 illustrated the economic shock that a broad breakdown of dealer intermediation had on global financial markets. Dealers' willingness or ability to

¹ Vanguard is a leading global investment management organization that offers a large selection of low-cost mutual funds, exchange-traded funds, investment advice, and related services to individual investors, financial professionals, and institutional investors. As of July 31, 2022, we managed assets globally on behalf of more than 30 million investors and acted as investment adviser to more than 400 funds worldwide.

² *Notice Seeking Public Comment on Additional Transparency for Secondary Market Transactions of Treasury Securities*, Docket No. TREAS-DO-2022-0012, (June 27, 2022), available at <https://www.govinfo.gov/content/pkg/FR-2022-06-27/pdf/2022-13540.pdf>.

³ See *The dash for cash: Observations on the fixed income market ecosystem during COVID-19* (July 2021), available at <https://corporate.vanguard.com/content/dam/corp/research/pdf/ISGBML.pdf>.

deploy balance sheet and warehouse assets contracted sharply in the face of escalating selling pressure, requiring swift and comprehensive intervention by central banks to restore normal market functioning. Although the Treasury markets function well overall, we appreciate Treasury’s focus on improving market resiliency and transparency, and agree that regulators should take steps to strengthen Treasury market structure.

We encourage the financial regulatory community to consider a range of reforms to foster continuous market making and improved transparency, such as all-to-all trading, countercyclical policy measures, and providing more clarity on potential monetary or regulatory actions during market stress events. Greater post-trade transparency also could play a role in promoting stronger, more resilient markets, if implemented in a way that does not harm liquidity, but transparency alone will not resolve all concerns about Treasury market structure.

We commend the regulatory community for taking a sound, data-driven approach to increasing Treasury market transparency and encourage regulators to continue this approach. We would also like to provide perspective on the RFI’s examples of additional transparency and suggest that public dissemination of transaction-level information will be least likely to impact liquidity if regulators first fill notable gaps in current reporting practices to level the playing field and use data from non-public reports to ensure appropriate public dissemination standards that adequately safeguard the identities, holdings, and trading strategies of Treasury market participants.

I. We encourage the regulatory community to continue its thoughtful approach to enhancing Treasury market transparency, while carefully considering potential liquidity impacts

Vanguard appreciates the steady progress that Treasury and other financial services regulators have made in recent years to gather data on transactions in Treasury securities and promote greater transparency without harming liquidity. For example, in 2017, the Financial Industry Regulatory Authority (FINRA) required its members to report secondary market transactions in Treasuries to its Trade Reporting and Compliance Engine (TRACE) and to share this data with Treasury and other financial services regulators. In March 2020, FINRA began publicly releasing aggregated transaction information on a weekly basis after the regulatory community determined, after consultation with market participants and analysis, that disseminating this data would not impair liquidity. Since March 2020, regulators have proposed and adopted a series of rules designed to close gaps in existing reporting frameworks and enhance the scope of publicly available data.⁴ This deliberate, step-by-step approach to filling regulatory data gaps and increasing transparency has appropriately prioritized the smooth functioning of the Treasury market.

As the regulatory community “explor[es] the possibility of additional post-trade transparency” in Treasury markets, Vanguard encourages the continued use of the pragmatic, data-driven

⁴ See RFI at 38260-38261 (describing workstreams by the Board of Governors of the Federal Reserve System and FINRA, respectively, to require reporting by depository institutions and to modify TRACE reporting standards and timeframes to collect more information and enrich public reports).

approach that has served both the markets and their participants well.⁵ We agree with the RFI that regulators should carefully consider “how much and in what form information should be made available, so that market participants are not disincentivized from providing liquidity and one group of participants is not unduly favored over another.”⁶ As the Inter-Agency Working Group on Treasury Market Surveillance (IAWG) explained “public transparency can enhance liquidity by fostering a greater understanding of market activity across market participants” and that this transparency “should be designed to avoid creating disincentives for providing liquidity.”⁷

The RFI seeks comment on three examples that illustrate a range of possible steps to increase market transparency. In the first example, regulators would disclose CUSIP-level information about pricing, trade count and volumes. The second example would build on the first, as regulators would disclose transaction-level details for on-the-run nominal coupons, while the third example would extend transaction-level public dissemination to every Treasury security. Vanguard views these examples as a potentially appropriate progression of next steps to increase Treasury market transparency. If the financial regulatory community determines to pursue additional transparency as outlined in the examples, we suggest that it pause after each step to gather data to assess impacts on market quality, including liquidity, and to calibrate the next step.

The importance of designing transparency requirements to account for potential liquidity impacts will be particularly acute for the examples that would make CUSIP or transaction-level information available publicly. This is because there is a much greater risk that public dissemination of this data could adversely affect liquidity if done in a way that identifies market participants or their holdings or facilitates the reverse engineering of trading strategies. To reduce the likelihood that public disclosure requirements will impair market liquidity, we encourage regulators to consider making future transparency requirements apply as broadly as possible and designing these requirements to avoid identifying trade counterparties.

II. Reporting requirements should cover transactions by all major market participants

A broad range of domestic and foreign parties transact in Treasury securities, including U.S. and foreign banks, dealers, proprietary trading firms, central banks, and end users, such as corporates, mutual funds, pension funds, and other investment vehicles. The current reporting regime for Treasury securities covers a sizeable portion of the market, but significant gaps remain that should be addressed.

As the RFI explains, regulators and market participants today have access to far more information about Treasury transactions than they did even five years ago. FINRA members, including many Treasury market intermediaries, currently report their transactions to TRACE, and later this year depository institutions will begin to do the same.⁸ Combined, these

⁵ See RFI at 38259.

⁶ RFI at 38260.

⁷ *Recent Disruptions and Potential Reforms in the U.S. Treasury Market: A Staff Progress Report* (Nov. 8, 2021) at 22, available at <https://home.treasury.gov/system/files/136/IAWG-Treasury-Report.pdf>. (IAWG Report).

⁸ RFI at 38260 – 38261.

requirements will capture a meaningful amount of Treasury market activity. However, there are two other categories of market participants—foreign banks and proprietary trading firms—that should be required to report Treasury transactions to TRACE before regulators proceed with transaction-level transparency.

Combined, these market participants comprise a substantial portion of activity in the Treasury market and implementing a public transparency regime without their transactions could have significantly negative implications for the markets and for investors in particular.⁹ For example, a public transparency regime that does not include transactions by foreign banks (or at least foreign banks with a U.S. presence) could result in a significant amount of liquidity shifting overseas, potentially during non-U.S. trading hours. This would likely reduce liquidity in U.S. markets to the detriment of buy-side market participants, such as mutual funds.

III. Public reporting of transaction-level data should include adequate safeguards to protect counterparty identities, holdings and trading strategies

We encourage the financial regulatory community to consider using TRACE as a model for a reporting regime that has created progressively more transparency in corporate bond markets while also protecting liquidity. TRACE has accomplished this by phasing in public transparency requirements over time and establishing protocols to protect the identity of market participants, their holdings and their trading strategies. We believe a similar approach could work well in Treasury markets.

The financial regulatory community already has access to a considerable amount of transaction-level data for Treasury securities through existing reporting requirements. We encourage regulators to leverage this data—supplemented with data from depository institutions, proprietary trading firms, and foreign banks, when available—to design a public dissemination framework that will not impair liquidity. Like TRACE’s public dissemination regime for corporate bonds, the Treasury reporting framework should establish appropriate reporting and dissemination timeframes and trade elements, with the goal of becoming more transparent over time as supported by data.¹⁰

In designing this reporting framework, we suggest that regulators give particular consideration to protections for large-size transactions, which we refer to as “block trades,” due to the potential for the dissemination of these transactions to impact markets in unpredictable ways.

⁹ The Securities and Exchange Commission (SEC) recently proposed a rule that would require proprietary trading firms to register as broker-dealers with FINRA. *See* Exemption for Certain Exchange Members, Securities Exchange Act Release No. 34-95388 (July 29, 2022). If the Commission adopts this rule, it would likely close the TRACE reporting gap that currently exists with respect to these firms, which would become subject to FINRA rules, including TRACE reporting requirements. We note that foreign holdings of Treasuries are more than \$7 trillion or greater than 40% of total supply, excluding System Open Market Account (SOMA) holdings. *See* Major Foreign Holders of Treasury Securities, available at <https://ticdata.treasury.gov/Publish/mfh.txt> and System Open Market Account Holdings of Domestic Securities, available at <https://www.newyorkfed.org/markets/soma-holdings>

¹⁰ FINRA introduced public transparency to corporate bond markets in three phases from 2002-2005, taking care at each step to minimize potential liquidity impacts. FINRA took a similar approach to public transparency in structured product markets beginning in 2012, starting with the most liquid types of structured products and expanding over time to less liquid products.

Block trades enable a fund, acting on behalf of its shareholders, to obtain a desired exposure quickly and on fair terms. These trades are typically negotiated directly with a dealer, often over the phone, and are executed slightly above (below) the current bid (offer) price for a buy (sell) order. The slight premium (discount) compensates the dealer for taking on a larger position that may take longer to hedge or unwind than a smaller trade. Current TRACE dissemination protocols apply dissemination caps to initial public reports of block-size transactions to protect the confidentiality of trading strategies and counterparties and to provide counterparties adequate time to hedge exposures, if desired.¹¹

We believe this model has served the corporate bond markets well and encourage regulators to take a similar approach should they determine that it is appropriate to publicly disseminate Treasury transaction data in near-real time. The thresholds at which caps would apply to public dissemination should be informed by historical data and consider the security's liquidity profile.¹² For example, more liquid security types (e.g., on-the-run Treasuries) could be subject to higher dissemination caps and shorter delays than off-the-run Treasuries and TIPS, which are less liquid than on-the-run Treasuries.

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Vanguard appreciates the opportunity to comment on Treasury's RFI and encourages Treasury to work with the other federal financial regulators to continue their thoughtful approach to enhancing Treasury market liquidity and resiliency through an incremental, properly calibrated approach to additional post-trade transparency that includes the activity of all significant market participants and includes adequate safeguards to protect counterparty identities, their holdings and their trading strategies.

If you have any questions or would like to discuss our views further, please contact George Gilbert, Head of U.S. Regulatory Affairs at george_gilbert@vanguard.com or John Madziyire, Head of U.S. Treasuries/TIPS at john_madziyire@vanguard.co.uk.

Sincerely,

/s/ Sara Devereux

Sara Devereux
Principal, Global Head of Fixed Income Group
The Vanguard Group, Inc.

¹¹ The dissemination caps are currently \$5 million for investment grade corporate bonds and \$1 million for non-investment grade corporate bonds. *See, e.g.*, Securities Exchange Act Release No. 71607 (February 24, 2014), 79 FR 11481 (February 28, 2014 (Order Approving File No. SR-FINRA-2013-046) at 11483 n. 30 (describing the IG and non-IG dissemination caps). TRACE disseminates full, uncapped transaction information as part of an historical dataset.

¹² We also support the letter submitted by the Investment Company Institute, specifically the recommendation to establish dissemination caps for large volume trades that are based on market data and tailored to the liquidity profile of different Treasury securities.

