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April 22, 2016

### **Submitted Electronically**

Office of the Under Secretary for Domestic Finance  
Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, D.C. 20220

**Re: *Comments on the Evolution of the Treasury Market Structure (January 22, 2016);  
Docket ID: TRES-DO-2015-0013***

Ladies and Gentlemen:

Tradeweb Markets LLC (“**Tradeweb**”) welcomes the opportunity to provide comments to the Department of the Treasury (“**Treasury**”) request for information (the “**RFI**”) regarding the evolution of the structure of the U.S. Treasury (“**UST**”) market.

#### **I. Background on Tradeweb**

Since 1998, Tradeweb has been at the forefront of creating electronic trading solutions which support price transparency and help reduce systemic risk for market participants in the fixed income and derivatives markets. For its fixed-income securities markets, Tradeweb operates three separate electronic trading platforms: (i) a global electronic multi-dealer to institutional customer platform through which institutional investors access market information, request bids and offers, and effect transactions with, liquidity providers that are active market makers in fixed income securities, (ii) a wholesale platform, called Dealerweb, for U.S. Government bonds, mortgage securities and other fixed income instruments, and (iii) a platform called Tradeweb Direct for retail-sized fixed income securities.<sup>1</sup> For its derivatives markets in the U.S., Tradeweb has two swap execution facilities (“**SEFs**”) – TW SEF LLC and DW SEF LLC – that were granted permanent registration by the Commodity Futures Trading Commission (“**CFTC**”) on January 22, 2016.

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<sup>1</sup> Tradeweb operates the dealer-to-customer platform through its registered broker-dealer, Tradeweb LLC. Tradeweb operates the Tradeweb Direct odd-lot platform through its registered broker-dealer, Tradeweb Direct LLC, which is also a registered as an alternative trading system (“**ATS**”) under Regulation ATS promulgated by the SEC under the Securities Exchange Act of 1934. Tradeweb operates its inter-dealer platform through its subsidiary, Dealerweb Inc., which is also a registered broker-dealer and ATS. In Europe, Tradeweb offers its institutional dealer-to-customer platform through Tradeweb Europe Limited, which is authorized and regulated by the UK Financial Conduct Authority as an investment firm with permission to operate as a Multilateral Trading Facility (“**MTF**”). In addition, Tradeweb Europe Limited has registered branch offices in Hong Kong, Singapore, and Japan, and holds an exemption from registration in Australia.

Tradeweb's first electronic market was a platform for institutional customers to trade on-the-run ("OTR") and off-the-run ("OFTR") USTs with multiple liquidity providers through a request for quote ("RFQ") system.<sup>2</sup> Tradeweb's institutional client base includes asset managers, hedge funds, bank desks, regional dealers, central banks, sovereign wealth funds, insurance companies and pension plans, and its liquidity providers are primary dealers and other broker-dealers that regularly make markets to institutional customers. Tradeweb's RFQ platform allows its clients to (i) view live, real-time pre-trade prices in USTs across the curve; (ii) participate in live, competitive auctions to trade USTs; and (iii) automate their entire workflow with integration to Tradeweb so that trades can be processed in real-time with participants' middle and back offices, facilitating clearance and settlement. Over the course of the last 18 years, we have seen the average daily volume ("ADV") of USTs on the RFQ platform grow to \$35 billion (notional), and as of 2016, over 4,650 institutional users from 750 institutions (representing over 25 countries around the world) use Tradeweb's RFQ platform to trade USTs.

Since 2008, Tradeweb has also offered voice and hybrid wholesale brokerage in OFTRs. Approximately 60% of notional volume on the platform is pure voice, and the balance is broker-assisted electronic (hybrid).<sup>3</sup> In 2014, Tradeweb leveraged its expertise in electronic trading to create a low latency Central Limit Order Book ("CLOB") based platform for OTR UST trading. Accordingly, over the past two years, we have been able to directly observe the activity of the Principal Trading Firms ("PTFs") and broker-dealers that participate in the OTR CLOB market, and the evolution taking place in the OTR segment of the UST market.

Given our role in these markets, we have been able to observe the UST market as a whole. As a result of the above, Tradeweb believes it is in a position to provide comments from the trading venue perspective in response to Treasury's RFI.

## II. General Overview of UST Market

### A. Overview of the UST Market Structure

Historically, there have been two separate marketplaces for USTs (outside retail activity): the dealer-to-customer ("D2C") market (institutional) and the interdealer or wholesale market. As noted above, in the institutional market, the largest dealers buy and sell USTs with their institutional customers (*e.g.*, asset managers, corporations, pension funds, *etc.*) on a fully-disclosed and principal basis. The provision of liquidity in the institutional market is essential for asset managers, corporations, municipalities and government organizations (*i.e.*, end users), which have numerous different asset and liability profiles to manage – so end-users can adequately take positions and hedge interest rate exposure. These liquidity providers then looked

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<sup>2</sup> Electronic RFQ is a fully-disclosed trading protocol, in which the liquidity taker can request (and receive) multiple, competitive prices (streaming, if requested) simultaneously; the liquidity makers are aware of clients' identities before a trade is executed, and have discretion as to whether to respond and/or trade with such counterparties. The trades are completed for the full size (*i.e.*, no partial fills).

<sup>3</sup> Tradeweb's full-service wholesale market (offered through Dealerweb Inc.) for USTs offers broker-assisted on-screen and off-screen trading of OFTR USTs, T-Bills, Basis, TIPS, and Floating Rate Notes.

to the wholesale market – the market where they have historically traded with one another – to obtain liquidity or offset risk as a result of transactions effected in the institutional market, or simply to hedge the risk in their portfolios.

In the wholesale markets, brokers act as intermediaries, working to facilitate transactions between dealers. Dealers and other wholesale market participants look to wholesale markets to obtain liquidity while at the same time preserving anonymity in their trades. By providing a service through which the largest and most active market participants can trade anonymously, wholesale markets prevent other participants from discerning a particular firm’s trading strategies, which in turn (i) reduces the costs associated with the market knowing a particular participant is looking to buy or sell a certain quantity of USTs, (ii) allows the participant to buy or sell USTs in varying sizes, providing stability to the marketplace, and (iii) enhances liquidity in the marketplace. In the electronic wholesale markets for OTR USTs, such activity typically occurs within an anonymous Central Limit Order Book (“CLOB”).

More recently, however, liquidity provision in the D2C market is at risk of being impacted due to shrinking balance sheet and other cost constraints on traditional dealer market-making ability. Regulatory limits on dealer risk capital combined with increased regulatory, trading and inventory costs are forcing some traditional dealer market-making desks to adjust and/or to limit their institutional client businesses. These dynamics have already begun to manifest themselves in increasing dealer concentration in the D2C market, with the top 5 dealers’ market share increasing from 44% to 60% from 2005-2015 – as clients have concentrated their flow among a smaller group of counterparties to ensure they retain premium relationships with those dealers.<sup>4</sup> In addition, infrastructure costs and limited technological capability will force some traditional broker-dealers to explore alternative strategies to facilitate institutional client business, including developing agency offerings. The emergence of non-banks providing liquidity in the D2C market could accelerate as traditional banks become increasingly constrained in the liquidity they can supply to institutional clients thereby forcing clients to search for non-traditional sources of liquidity. We note, however, that historically, PTFs have not had client franchises (as in the more traditional broker-dealer model), and have not typically or consistently participated in the OFTR market. As such, PTFs’ trading and liquidity provision decisions are typically based on immediate profitability, instead of profitability derived from servicing long-standing clients.

In the OTR CLOB market, PTFs now commonly act (and proliferate) as short-term liquidity providers, buying and selling frequently in small amounts and rarely taking significant unhedged intraday positions. They typically end the day with little net directional exposure, meaning their position is “flat.” To avoid stale quotes and unprofitable trades, PTFs may quickly cancel or modify existing quotes, thereby impacting liquidity in the OTR CLOB markets. The OTR CLOB markets have also been impacted by a marked increase in “internalization” of orders at traditional dealers. Internalization is where orders are crossed internally as opposed to being

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<sup>4</sup> Greenwich Associates, *U.S. Treasury Trading: The Intersection of Liquidity Makers and Takers*, p5 (October 13, 2015).

exposed to the open market and has increased in recent years as dealers have sought to reduce transaction costs associated with external execution resulting in lower execution costs which can be passed on to clients to provide meaningful cost savings. Such internalization may result in decreased participation in CLOB markets by traditional dealers.

## **B. Liquidity**

For the reasons noted above, the UST market structure is undergoing an evolutionary shift that is impacting both the anonymous CLOB and D2C RFQ markets.

While we currently regard the D2C RFQ-based UST market as very healthy and sufficiently liquid, the increasing balance sheet constraints, rate structure, and costs to traditional broker-dealers, combined with PTFs having limited client franchises (and not offering OFTR liquidity) present some medium and longer term challenges to the D2C market. That said, we can say without qualification that OTR and OFTR USTs are actively traded and priced with strong RFQ responses and hit rates. The backbone of the RFQ protocol is the pre-trade transparency provided to Tradeweb's clients and liquidity providers through Tradeweb's composite prices and distributed market data. The composite prices are algorithmically generated bids and offers for each UST security, based on streaming prices from liquidity providers on the platform. Across all trades done on the Tradeweb platform in 2015, 98% of more than 800,000 standard settled trades were executed at or better than the respective bid/offer side of the Tradeweb composite. Tradeweb's average RFQ trade size in 2015 for OTRs was over \$10 mm and OFTRs was over \$5 mm.

However, the daily volume currently transacted in the electronic OTR CLOB market is approximately nine times the size of the electronic OTR D2C market. PTFs, which deploy low-latency proprietary automated trading strategies, initially began trading OTR USTs on anonymous CLOB trading platforms in the mid-2000s. PTFs now account for over half of the trading activity in the futures and electronically-brokered interdealer cash treasury markets. This activity is concentrated among a relatively small number of firms who represent a majority of the top ten most active firms as measured by average daily trading volume.<sup>5</sup>

With respect to the OTR CLOB market, we are seeing greater market fragmentation through increased internalization and the adoption of bilateral streaming protocols, both of which result in trading activity not being exposed to the entire market. Such continued decentralization may adversely impact liquidity, and less information may be available to market participants, clouding the state of the market. We believe, however, that technological and commercial solutions will continue to adapt to the changing landscape in the UST market. As a result of the above, we believe cost effective regulatory reporting should be implemented, but would caution

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<sup>5</sup> Joint Staff Report, The U.S. Treasury Market on October 15, 2014, p.4.; Robert MacKenzie Smith, *The fast and the furious: HFT in US Treasury markets*, (Oct. 1, 2015) available at <http://www.risk.net/risk-magazine/feature/2428024/the-fast-and-the-furious-hft-in-us-treasury-markets>; Robert MacKenzie Smith, *Client list reveals HFT dominance on BrokerTec* (Sept. 23, 2015) <http://www.risk.net/risk-magazine/news/2426923/client-list-reveals-hft-dominance-on-brokertec>.

the Treasury on any mandated public reporting. Moreover, to the extent public reporting is considered, it should only occur after the regulators understand the data collected, conclude that it is necessary, and the public has an opportunity to comment on a specific rule proposal -- and consideration of a public reporting regime must be careful and balanced (and cost effective), and must account for the vast differences in the OTR and OFTR markets.

### **C. Streamlining the OTR Institutional RFQ Market**

Consistent with its 18 year history of innovation in electronic trading, Tradeweb has been exploring additional ways to improve upon price transparency and enhance execution in USTs for institutional clients. Down the road, as venue intermediation and technology evolve, Tradeweb envisions clients having view and trade access to the OTR order book within the RFQ platform environment. In the interim, Tradeweb has been working on technology that will allow clients to view the Tradeweb OTR CLOB pricing within the RFQ platform front-end. This will streamline the experience for clients evaluating prices, and who they source liquidity from as they make their trading decisions on the RFQ platform.

## **III. Regulatory and Public Reporting**

### **A. Real-Time Regulatory Reporting**

Tradeweb supports regulatory reporting of both OTR and OTFR secondary market transactions. Such reporting should occur as frequently as real-time, although the implementation and phasing of any reporting requirement should be carefully evaluated with respect to the cost and the technical build required. The costs and technical effort required may differ when considering the impact on various types of market participants, execution venues, and third party service providers; as such, the impact on all types of participants should be carefully evaluated.

We believe that one-sided reporting (i.e., by the primary dealer or more sophisticated financial institution) – like that of the swaps reporting regime of the CFTC – would be an appropriate construct for all UST trades executed telephonically. For transactions which occur or are processed on a regulated electronic platform or platform operated by a regulated entity, the venue should be able to discharge the reporting obligation of the reporting party.

The scope of trade reporting should consider including the security traded, date and time, size, price, participants to the trade, and venue of execution, if applicable. All transactions should be subject to any reporting requirement, whether executed on an electronic platform, an interdealer broker, or bilaterally. Additionally, reporting should apply to trades between counterparties of all types, including dealer to dealer, dealer to customer, customer to customer, and intermediated trades.

## **B. Public Reporting**

Public dissemination of this data requires further examination, as it may not be necessary or appropriate and in fact may in some cases be harmful to the market. The information which is already available to the public sector with respect to the UST market is ample and is generally understood to be sufficient for market participants to evaluate the market and make decisions. UST price data is available to the public via trade execution venues, market data providers, and directly from other market participants. Even for less liquid Treasury instruments, such as STRIPS and TIPS, we believe that existing pre-trade price transparency is very robust.

We believe that any perceived potential benefit of public trade reporting (particularly for real-time reporting) should be carefully weighed against a number of demonstrable risks. For example, public reporting would likely have negative consequences on price formation and liquidity because such reporting would significantly constrain the ability for market participants to hedge their transactions, particularly those providing liquidity. The public dissemination of transaction data may also have the unintended consequence of increasing volatility in less liquid securities, such as OFTR USTs. In fact, public data reporting, particularly if done in or near real-time, inhibits the ability of market participants to exchange large quantities of risk without the marketplace reacting adversely.

Should Treasury determine that public reporting is necessary, it is imperative that such dissemination is appropriately vetted with market participants through public comment (in response to a specific proposal). In particular, large size trades and less liquid securities should only be publicly disseminated if subject to an appropriate time delay so as not to result in negative consequences to liquidity and to the market. The method of execution and the protocol utilized to execute a trade may also influence the time a trade is deemed executed. For example, voice-executed trades or trades executed at a designated closing price would need to be manually time-stamped and submitted, so a framework must be put into place to aid in timely reporting of such trades.

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Tradeweb believes that it is necessary to strike the correct balance between transparency and “too much” disclosure. First, while transparency can enhance the operation of certain markets, we believe that the current level of information available to the public does not require a regulated public reporting regime. In addition, the availability of certain market data to the public may be undesirable for the reasons listed above. We therefore urge Treasury and other U.S. regulators to carefully consider the effects of public disclosure when creating rules to create well-functioning markets. Second, the operational and technological cost of such reporting to

trading venues and market participants may be significant relative to the benefits of such reporting, depending on the extent of requirements.<sup>6</sup>

#### **IV. Risk Management and Clearing**

##### **A. Venue-level Risk Management Practices in Treasury Cash Trading Venues**

The different trading protocols employed by the OTR CLOB markets and the D2C RFQ markets result in divergent market behaviors and functionality. Electronic CLOB markets operate in a much lower latency environment utilizing high speed matching engines, while D2C electronic markets utilize RFQ technology in which manual user interface screens are employed to send RFQs and execute trades. Traditional broker-dealers and PTFs alike have embraced technology to facilitate auto-hedging and auto-quoting across the CLOB and D2C RFQ markets.

Automated trading speed has given rise to new risk concerns and has required the development of additional risk management protocols. These risk management protocols have been deployed both at the trading platform level and to the participants themselves, including banks, PTFs, and institutional customers. However, the inherent differences between the CLOB market and the RFQ market must be taken into account when determining appropriate risk metrics and controls.

In the electronic OTR CLOB market, which operates by matching fully firm executable prices on low-latency matching engines, controls such as order throttles, risk limits, credit exposure limits, and trading bands are typically employed and are appropriate. In both the CLOB and RFQ markets, fat finger limits and order size limits that platforms and/or their participants can impose, aid in error reduction. Tradeweb's OTR electronic CLOB platform market has a suite of market surveillance and control capabilities that assess the following metrics: order resting time, order-to-fill ratios, order-to-cancel ratios, cross market orders, trades at close / critical times, uncommon transaction reporting, and volatility detection. Tradeweb expressly prohibits self-trading on the OTR CLOB and has systems in place to prevent it. Principles-based regulation which sets minimum standards on risk controls and strives for harmonization across venues would be beneficial to the market. Provided that risk management practices are adequately deployed, Tradeweb believes that any regulatory changes must allow technological innovation to continue in both the CLOB and RFQ markets.<sup>7</sup>

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<sup>6</sup> We note that electronic markets also have the ability to collect and provide other non-execution data such as price movement, quote updates, and order data. Such data could be available to regulators upon request, but should not be reported in real time and should not be publicly disseminated, given that such disclosure would arguably not enhance market efficiency or price discovery. A similar rationale for non-disclosure applies to any fees paid from one market participant to another.

<sup>7</sup> We believe it is worth noting that while some risk controls are beneficial in the UST market, our view is that trading halts would not be an appropriate control to apply uniformly across the UST market. As the UST market provides the benchmark for pricing many other fixed income instruments, trading halts have the potential to cause systemic disruption across multiple markets. The practical implementation of a halt given the over the counter

## **B. Benefits and Risks Associated with the Clearing and Settlement Structure**

The clearing and settlement process in the UST market today depends on the market participant and the UST market involved. While primary dealers and other broker-dealers are members of the Government Securities Division (“GSD”) of the Fixed Income Clearing Corporation (“FICC”) and clear their trades, other participants do not necessarily do so. A lack of central clearing introduces settlement and counterparty risk into the UST market, however, any changes to this structure must be carefully considered due to the increase in costs that would be involved if clearing is mandated.

The majority of average daily traded volume in electronic OTR CLOB markets involves PTFs. PTFs are not currently members of the FICC and therefore do not clear their trades or have them novated by the FICC, which is used by the majority of traditional bank dealers. The bifurcation between the bilaterally settled and GSD cleared market exposes venues to increased counterparty risk, capital, and margin requirements, as well as cash flow constraints.

In the D2C markets, the vast majority of institutional customers, who act as liquidity takers in this model and typically transact with FICC member banks, follow the same construct – meaning the trades are not cleared. As a result, the continually increasing volume of non-centrally cleared trades in both the CLOB and D2C markets raises issues of settlement risk.

A move toward central clearing of USTs may alleviate some of this risk while also priming the market for the continued evolution of the market beyond the traditional construct of interdealer trading, and dealers trading with institutional customers. However, a move to central clearing would result in increased trading costs for PTFs and institutional customers who do not clear their UST trades today. Tradeweb believes additional study of the systemic risk posed by the use of clearing should be undertaken by the Treasury. However, such a study should occur after greater transparency is established in the UST market through better, regulated data reporting.

## **V. Conclusion**

As an electronic trading venue for USTs, Tradeweb has observed a number of evolutionary shifts impacting both the wholesale and D2C markets. Tradeweb has been at the forefront of and supports the ultimate goal of greater transparency and efficiency in the UST market, but we believe that Treasury, along with other U.S. regulators, must carefully balance the benefits of new risk management and reporting requirements against the potential costs of such requirements to market participants and market quality generally.

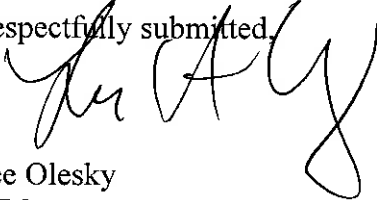
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nature of the market, number of CUSIPs, and the lack of coordination between the multiple venues would be an immense challenge and cost to the market.



If you have any questions concerning our comments, please feel free to contact the undersigned. Tradeweb welcomes the opportunity to discuss these issues further with Treasury and its staff, including participating in roundtables, working groups or committees to discuss this matter further, as necessary.

Respectfully submitted,  


Lee Olesky  
*CEO*