April 22, 2016

VIA ONLINE SUBMISSION (http://regulations.gov)

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

Re: **Request for Information on Evolving Treasury Market Structure (Docket No. TREAS-DO-2015-0013)**

Dear Mr. Pearl:

The Futures Industry Association ("***FIA***") welcomes the opportunity to submit this letter in response to the "Notice Seeking Public Comment on the Evolution of the Treasury Market Structure" ("***RFI***") issued by the Office of the Under Secretary for Domestic Finance of the Department of the Treasury ("***Treasury***"). The RFI is an outgrowth of the "Joint Staff Report: The U.S. Treasury Market on October 15, 2014" ("***Joint Report***") issued on July 13, 2015 by the staffs of the Treasury, Board of Governors of the Federal Reserve System, Federal Reserve Bank of New York, Securities and Exchange Commission and Commodity Futures Trading Commission ("***CFTC***") (collectively the "***Regulators***"), which analyzed a specific 12-minute window of unusually high volatility that occurred in the Treasury securities markets and related Treasury and interest rate futures markets on October 15, 2014 (the "***Volatility Event***").

I. FIA's Interest in the RFI

FIA has a significant, but focused, interest in the RFI and the next steps identified in the Joint Report for coordinated action by the Regulators. As the leading global trade organization for the futures, options and centrally cleared derivatives markets, FIA believes that it is critically important for the Regulators to keep in mind that the U.S. futures exchanges, futures industry professionals, and market participants are subject to comprehensive regulation under the Commodity Exchange Act ("***CEA***") and rules of the CFTC thereunder, including in the areas of trading risk controls, enhanced market surveillance and market data collection addressed by the RFI. In particular, it is important for the Regulators to avoid imposing additional unnecessary regulation in these areas on the futures markets. In that regard, as Treasury may know, the CFTC is addressing some of the same regulatory matters contemplated in the RFI through its pending Regulation AT rulemaking. FIA firmly believes that any future regulatory action addressing automated trading in the futures markets is the primary responsibility of the CFTC and the futures exchanges, as self-regulatory organizations, working together with the futures industry.

FIA is uniquely positioned to provide this input. FIA's membership includes international and regional banking organizations, clearinghouses, exchanges, brokers including futures commission merchants ("***FCMs***"), vendors and trading participants engaged in electronic, or algorithmic, trading. That said, our comments in this letter draw heavily on the perspective and experience of FIA's FCM constituents, due to their central role as the regulated futures industry professionals that provide market participants with execution and clearing access to the U.S. futures markets. FCMs perform a vital function in protecting the market and financial integrity of the futures markets.

We note that our affiliate, the FIA Principal Traders Group ("***FIA PTG***"), is submitting a separate comment letter from the unique perspective of its principal trading firm ("***PTF***") constituents, and we express no view on the FIA PTG's comments. Also, many FCMs represented by FIA are part of broader organizations that are active in the U.S. Treasury securities markets. We do not offer comments on the questions posed in the RFI as they pertain to the cash Treasury securities markets, and we generally defer to the responses provided by SIFMA or others representing the views of those most actively involved in – and thus most knowledgeable about – the operations of the cash Treasury markets.

II. General Support for the RFI

The Joint Report was unable to determine a single cause for the Volatility Event, but identified next steps in four areas for the Regulators to pursue. The RFI raises specific questions relating to three of those next step efforts, specifically, to: (1) further study the evolution of the U.S. Treasury markets (broadly defined to encompass both cash Treasury securities markets and related Treasury and interest rate futures markets) and implications for market structure and liquidity; (2) continue monitoring trading and risk management practices across the U.S. Treasury markets and review current regulatory requirements; and (3) assess the data available on U.S. Treasury cash securities markets to the public and official sectors. FIA appreciates the regulatory interest in conducting further analysis in these three areas, and we agree that now is an appropriate time to undertake such analysis.

We also understand Treasury's interest in wanting to protect the integrity of the cash Treasury securities markets, and thus to understand the causes of the Volatility Event. Any market has the potential to be subject to periods of extreme volatility. Fortunately, such events have been rare in the Treasury markets, and it is important to keep that in perspective and to recognize that volatility is not necessarily the result of disruptive trading conduct. We believe it is more productive for the Regulators to seek to identify and evaluate more generally the factors impacting the evolution of the Treasury markets, and which may be impacting market liquidity or otherwise contributing to volatility.

The growth of electronic trading, and the growing participation of PTFs, are certainly part of that narrative explaining the evolution of the Treasury markets to their current state, but they may not be the only relevant factors. Thus, we encourage Treasury to assess other potential factors that may be shaping the Treasury markets, such as whether regulatory capital constraints on banks or other market participants may be inhibiting their level of participation in the Treasury markets, potentially harming market liquidity.

In addition, given the reality of multiple statutory frameworks applicable to different segments of the Treasury markets including multiple regulators for the Treasury securities markets, we encourage Treasury, working closely with the CFTC (and the other Regulators) to consider whether there are any areas where regulatory requirements pose obstacles to the fair and efficient operation of the Treasury markets, or may impede market innovation that could enhance the interconnections among the segments.

FIA also fully endorses the fourth step identified in the RFI, namely, for the Regulators to continue their efforts to strengthen monitoring and surveillance of the U.S. Treasury markets through interagency coordination related to trading across the various segments comprising those markets. Such coordination is important to assure that future regulatory initiatives are effective within each Regulator's statutory remit, and do not result in the imposition of unnecessary, duplicative – and potentially counterproductive – requirements on already fully-regulated futures markets, futures industry professionals and market participants.

III. General Comments

A. Treasury Futures Markets Are Distinct from the Cash Treasury Securities Markets and Are Subject to Very Different Market Structure Regulation Under Federal Law

The Treasury futures markets, although unquestionably interrelated to the cash Treasury securities markets as derivatives of those markets, are also distinct from the cash Treasury markets. In other words, the Treasury markets, when broadly viewed as encompassing cash Treasury securities and Treasury futures, are not monolithic, as acknowledged in both the RFI and Joint Report. Indeed, as the RFI acknowledges, Congress has established separate, long-standing statutory frameworks for regulating Treasury futures markets and cash Treasury securities markets.

Notably, Treasury futures, like all futures and options on futures (collectively, "***futures***") trading in the U.S., must be conducted on or subject to the rules of CFTC-registered and regulated exchanges, known as designated contract markets ("***DCMs***"), which function as front-line market oversight regulators through their self-regulatory responsibilities. The exchange trading requirement promotes competitive trading in centralized auction markets, subject to strict trade practice requirements, all of which are designed to assure the integrity of trading in the futures markets, including those for Treasury futures.

In contrast, Congress has not required Treasury securities – or any securities for that matter – to be traded on centralized exchange markets, and the federal securities laws explicitly recognize and permit OTC trading. Moreover, Congress has repeatedly declined to impose such requirements with respect to any securities going back to the 1930s. (More specifically with respect to oversight of Treasury securities markets, Congress has even taken a much lighter touch approach compared to equity securities. For example, it has not mandated any type of national market system structure for Treasuries as it has for equities.) Consequently, Treasury securities may be traded in different ways and on a range of trading venues.

It is important to bear in mind these Congressionally-mandated differences in market structure when analyzing the information collected through the RFI process and evaluating how to improve monitoring and surveillance.

It is equally important to bear in mind that Treasury (and related interest rate) futures are but segments of the broader U.S. futures markets, all of which are subject to extensive regulation in the areas contemplated in the RFI and in many other areas. Singling out Treasury futures for special, additional regulatory requirements in the areas of risk control, market data collection and market surveillance could be highly disruptive to the procedures and infrastructure that the exchanges and industry have already put in place to comply with their comprehensive regulatory obligations under the CEA framework.

B. Electronic Trading and Trading Risk Controls

Electronic trading has contributed substantially to liquidity and price discovery in the futures markets, including the markets for futures on Treasury securities and related interest rate futures.

FIA also recognizes, though, that automated trading systems have the capacity to disrupt markets and impair liquidity. That is why FIA has long supported the use of properly placed controls to mitigate disruptive trading events, including supporting the broad goals (but with comments on the proposed specifics) of the CFTC's proposed Regulation AT. Indeed, the FCM community, exchanges and PTF firms and other market participants have devoted substantial resources to developing and implementing appropriate trading controls relating to automated trading.

FCMs are subject to stringent risk management obligations under CFTC rules. CFTC Rule 1.11 requires each FCM to have a risk management program to monitor and manage all risks associated with its activities as an FCM.[1] Among other elements, the risk management program must be reasonably designed to address operational risk including placing of erroneous orders that may exceed preset capital, credit or volume thresholds. The risk management program must also "ensure that the use of automated trading programs is subject to policies and procedures governing the use, supervision, maintenance, testing, and inspection of such programs."[2] The FCM's risk management program and related written policies and procedures must be approved in writing by the FCM's governing body, and must be filed with the CFTC and its designated self-regulatory organization upon registration and thereafter upon request.

In addition, under CFTC Rule 1.73, each FCM that is a clearing member of a DCO must establish risk-based limits for each customer and proprietary account based on position size, order size, margin requirements or other similar factors. The FCM is also required to screen orders for compliance with those limits, including use of pre-execution automated means to screen orders when the FCM provides electronic market access. Swap dealers that are clearing

[1] Swap dealers are subject to a similar risk management program requirement under CFTC Rule 23.600.

[2] 17 CFR §1.11(e)(3)(ii).

members of a DCO are similarly subject to requirements to set and screen risk-based limits for their proprietary accounts pursuant to CFTC Rule 23.609.

The trading risk control programs in place at the FCMs are supplemented by trading risk management controls employed by the exchanges in their electronic trading platforms, such as price banding, maximum order size protection, kill switch and stop logic functionality. (Please refer to the CME Group comment letter on the RFI for a more detailed description of the risk management tools used by the CME Group Exchanges including with respect to Treasury futures listed on the Chicago Board of Trade and interest rate futures listed on the Chicago Mercantile Exchange.) We also note that FIA member firms have been proactive in developing best practices and guidelines for identifying risks and strengthening safeguards relating to automated trading in the futures markets.[3]

As mentioned, we believe that the CFTC and exchanges are best positioned to address trading risk controls for all segments of the U.S. futures markets, including the Treasury futures markets.

C. Liquidity

FIA believes that the Treasury futures markets are highly liquid based on the experience of our members participating in those markets, by whatever measure used. FIA also notes that futures exchanges have a strong track record of promoting liquidity through incentive programs that provide incentives to market participants to stream quotes and respond to requests for quotes. (These programs are in addition to the comprehensive regulatory framework in place for the futures markets to detect, prevent and deter disruptive trading.)

D. U.S. Futures Markets Are Subject to Comprehensive Regulation

The U.S. futures markets, industry professionals and market participants are subject to comprehensive regulation under the CEA framework, not only in the areas addressed in the RFI but also in other areas that are relevant for maintaining market and financial integrity. In addition to risk controls to mitigate disruption of trading in the futures markets, the futures markets have extensive rules, controls and/or regulatory infrastructure in place in the following areas:

- Regulation of the clearing process and clearing members, including treatment of customer funds held by clearing houses and FCMs as collateral for customers' open futures positions. These measures help ensure the financial integrity of the futures markets and clearing process, which is also important for protecting markets against the impact of potential disruptive trading events triggered by capital failures.

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[3] In this regard, FIA itself, FIA PTG and/or FIA European Principal Traders Association have published the following papers: *Market Access Risk Management Recommendations* (Apr. 2010); *Recommendations for Risk Controls for Trading Firms* (Nov. 2010); *Order Handling Risk Management Recommendations for Executing Brokers* (Mar. 2012); *Software Development and Change Management Recommendations* (March 2012); *Drop Copy Recommendations* (Sept. 2013); *Guide to the Development and Operation of Automated Trading Systems* (Mar. 2015) ("*Guide*").

- Efficient and effective infrastructures for collecting audit trail data for regulatory use. The exchanges routinely collect detailed and extensive audit trail data through robust electronic audit trail infrastructure. The exchanges provide this futures market audit trail data to the CFTC on a daily basis. This audit trail data is a critical component of the market surveillance activities of the exchanges as the front-line self-regulators and also facilitates the CFTC's enforcement initiatives. The CFTC has the authority under the CEA to share this data with other federal regulators. There are no shortcomings in the audit trail data available with respect to trading of Treasury futures or any futures in the U.S.

- The audit trail data is supplemented by large trader data, which identifies market participants that hold sizable open positions above prescribed thresholds. This large trader program is being expanded under the CFTC's ownership and control reporting rules to cover collection of information identifying market participants that engage in a high volume of daily trading in a particular instrument on an exchange (or on a swap execution facility). This supplemental data also enhances the compliance activities of the exchanges and CFTC.

- Imposition of trade practice rules by the exchanges, in accordance with core principles and other provisions set out in the CEA requiring DCMs to offer competitive, centralized auction markets, combined with effective trade practice and market surveillance programs at the exchanges designed to detect noncompetitive or disruptive trading and take enforcement action against market participants engaged in such trading activity.

- Public dissemination of market data. The exchanges provide a wealth of futures market trading data to the public both directly and through established networks of market data vendors. The data available includes real-time market data, historic market data and end-of-day summary data.

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FIA appreciates the opportunity to provide our comments to Treasury on the RFI, and we are happy to provide a detailed explanation of the CEA regulatory framework relevant to the matters addressed in the RFI. Please contact Allison Lurton, Senior Vice President and General Counsel, at 202-466-5460, if you have any questions about FIA's comments.

Respectfully submitted,

Walt L. Lukken

Walter L. Lukken
President and Chief Executive Officer