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

Re: *Notice Seeking Public Comment on the Evolution of the U.S. Treasury Market Structure Docket ID: TREAS-DO-2015-0013*

Convergex appreciates the opportunity to provide our thoughts for consideration as it responds to the Five Agencies Joint Staff Report analyzing the events of October 15, 2014 in the U.S. Treasury Market.

A properly functioning U.S. Treasury market is important for three reasons. First, it serves the people of the United States through the funding of their Government. Second, Treasuries are the most secure and risk free asset in global capital markets and are a safe haven investment during periods of volatility and a source of collateral in any market environment. Third, it comprises an important part of many governmental, institutional and retail investor portfolios, both in the U.S. and around the world.

Therefore, a properly functioning U.S. Treasury market is a national priority and market participants need to put that societal mandate ahead of purely commercial concerns as they consider changes to current business practices. In addition, we agree with SIFMA and Securities and Exchange Commission Chair, Mary Jo White, that a one-size fits all approach which simply grafts the market structure of another asset class, such as U.S. equities, onto existing Treasury market structure is not the right path. We can, and should, take the very best of "best practices" from across regulatory and market structure paradigms as we improve upon the current U.S. Treasury market.

We would like to offer four considerations as SIFMA develops its perspective on this important set of topics. As the structure of the U.S. Treasury market evolves, it must do so taking into account the interests of ALL market participants. The ability to provide a modern liquid market, while not adversely affecting the ability of the U.S. government to fund itself, is paramount.

#1: A more unified marketplace. Currently, the U.S. Treasury market structure is composed of two separate structures. The customer to dealer (C2D) network and the inter-dealer broker (IDB) network. Each has its own customer base as well as its own strengths and weaknesses, but the intersection between them is limited. We believe the U.S. Treasury market would benefit from moving to an "all to all" marketplace, where every participant can interact with each other. This will improve the overall functioning of the market as market participants with disparate points of view on interest rates, macro risk and other factors can find the other side of a trade more efficiently. The ability of correlated and non-correlated flows to match up against each other more often also may increase liquidity and limit outsized market moves on extremely volatile days.

#2: Transparency. We need to leverage technology to bring pre-trade transparency to the decision making process which will increase a market participant's ability to make decisions on liquidity provisioning and availability. While price and trade data exists for the electronic trading of U.S. Treasuries in the secondary IDB market, dealer trades with investors do not have the same level of transparency. Price and trade data are available from IDBs for a fee, but no such data is provided by the dealers, thus leaving a void in overall information. The goal of any market structure framework should be to provide the investment community with access to the best prices. This can be achieved by requiring all the systemically important market makers and IDBs contributing to a consolidated pricing mechanism for all participants to see. This should have the effect of facilitating competition and narrowing spreads.

An important part of the U.S. Treasury market still involves principal trading by large banks. Therefore, we believe it is prudent to consider all unintended consequences that may curtail the banks' ability to continue to be able to warehouse risk. We believe that it makes sense to delay the reporting of large trades rather than report them in real time in an effort to protect this valuable aspect of current market structure.

#3: A focus on "Best Execution." Under the existing market structure, asset managers may not be meeting their potential best execution objectives because they only have access to liquidity through the dealer network. A best execution mandate should have the effect of tightening spreads and increasing liquidity when combined with the democratization of the asset class.

#4: A system that functions as a systemic shock absorber. Unlike most capital markets where "risk assets" trade (e.g., equities, corporate bonds, options, etc.), the U.S. Treasury market sees its greatest demand when general market risk aversion is rising. It is during those times that Treasury market structure must be most robust. Any change to the market structure needs to ensure measurable liquidity in times of stress. At times of imbalanced risk transfer, whether they be "flash rallies" or "flash crashes," potential lack of liquidity is simply unacceptable if the U.S. dollar is to remain the world's reserve currency and U.S. Treasuries the preeminent risk free asset. Allowing all participants to have equal access to both the primary dealer distribution network as well as secondary markets will increase liquidity and limit potential volatility while continuing to focus on iron-clad robustness.

In summary, we believe that there are four key attributes that should collectively guide SIFMA and all market participants as they consider changes to U.S. Treasury market structure. The first is democratization: give broad market access and information to a greater number of participants. Second is liquidity: simply put, more natural liquidity interacting with other order flow generally makes for healthier markets. Third is transparency/best execution: best execution requires transparency. Improve transparency and it becomes easier to measure best execution. Lastly – and most importantly – is confidence: U.S. Treasuries need to trade in a system that is every bit as robust as the full faith and credit of the United States, not just for U.S. capital markets but for the global financial system as a whole.

Convergex appreciates the opportunity to comment on the Treasury RFI and your consideration of our above response. Please do not hesitate to contact me with any questions or for further information.

Sincerely,

Eric Noll
President and CEO