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April 22, 2016

US Department of the Treasury
Office of the Executive Secretary
Attention: David R. Pearl
Via Federal eRulemaking Portal

Dear Mr. Pearl,

RBS Securities Inc. is pleased to present the attached response to the US Treasury Request for Information on structural changes in the U.S. Treasury market and their implications for market functioning, trading and risk management practices across the U.S. Treasury market, considerations with respect to more official sector access to Treasury market data, and benefits and risks of increased public of Treasury market activity.

As a leading US Primary Dealer for over 40 years, RBS Securities has had a "front seat" to the numerous changes and issues in the U.S. Treasury market over a period which has seen tremendous change in technology impacting both the inputs to and the execution within the market, the globalization of markets, and the building dependencies of global economies. RBS Securities appreciates that it is important for regulators to understand these changes, and to anticipate changes required in the regulatory environment as a result of these changes necessary to ensure a fair and transparent market in line with regulatory mandates.

However, as indicated in our responses, RBS also notes that basic indicators of market dynamics demonstrate that the U.S. Treasury market is the most liquid market in the world, with arguably the lowest transaction costs. As a result the market has demonstrated the ability to be by far and away the most effective market for investors, central banks, and other market participants to adjust risk parameters quickly in a market crisis, regardless of the geographical location or market in which that incident occurs. RBS Securities Inc. believes that it is therefore extremely important to the functioning of global markets and global economies that any adjustments to the regulatory environment do not in any way inhibit this liquidity or increase transaction costs.

RBS Securities has taken a very high level approach in our responses, offering key points that we believe should be taken into account by regulators, and giving a high level view of practices undertaken by RBS Securities as a participant in the market. RBS Securities is always willing to offer more in-depth information on any topic as necessary, and is always willing to discuss the dynamics of the U.S. Treasury market and RBS Securities' participation in the market in any forum as regulators move through their analysis of the market.

Sincerely,

A handwritten signature in blue ink, appearing to read "Alan Mittleman", with a long horizontal flourish extending to the right.

Alan Mittleman
Managing Director
Head USD Rates Trading

No.	Question	Response
I. Further study of the evolution of the U.S. Treasury market and the implications for market structure and liquidity		
1.1	Have there been changes in the nature of liquidity provision, or demand for liquidity, in the U.S. Treasury market? If so, are these trends different in the futures, dealer-to customer, or interdealer broker (“IDB”) market, or in the “on-the-run” and “off-the-run” sectors, or across different types of Treasury securities (e.g. bills, nominal fixed rate coupon securities, nominal floating rate securities, and inflation-indexed securities)? Which factors have been responsible for any observed trends in liquidity provision and/or demand? In addressing those questions, please consider the dealer-to-customer market, trading on IDB platforms, and in the futures market, as applicable, and please provide or refer to data and/or analysis that support your conclusion. In addition, please consider the following questions, as applicable:	<p>At its most basic definition, liquidity is the ability to convert one asset or liability into another (eg: Treasury security into cash). However, that ability can be defined or assessed across a number of different dimensions and therefore liquidity may mean different things to different market participants. We see six main dimensions across which most aspects of liquidity can be classified: market access, immediacy, known transaction costs, unknown transaction costs (market impact), pricing discipline, and transparency.</p> <ol style="list-style-type: none"> 1. Market access – the most basic level of liquidity, physical access to pools of liquidity. Driven by relationships with dealers, regulatory restrictions, operational and technological capabilities, etc. For example, do you have direct access to trade on CME? Do you have trading relationships with relevant dealers? Access to a SEF? <ol style="list-style-type: none"> a. Potential measures or indicators: Market shifts (TY vs. UST cash volume), platform user counts, # of dealers on RFQ platforms, market concentration statistics such as Herfindahl-Hirschman index 2. Immediacy – regardless of price, how quickly are you able to convert one asset into another? <ol style="list-style-type: none"> a. Potential measures or indicators: Transaction volumes, market depth, execution times, dealer balance sheets 3. Known transaction costs – ex-ante transaction costs <ol style="list-style-type: none"> a. Potential measures or indicators: executable bid-ask spreads, execution/transaction fees, margin requirements 4. Unknown transaction costs – ex-post transaction costs, particularly relevant when trading in size <ol style="list-style-type: none"> a. Potential measures or indicators: gap between indicative or expected bid-ask and actual execution price, includes incremental market impact in between pieces of a large risk transfer, unexpected change in hedging costs from pricing to execution, intraday volatility 5. Pricing discipline – strength of the price correction mechanism, how persistently do prices trade away from “fundamental” value? <ol style="list-style-type: none"> a. Potential measures or indicators: price errors, inter-day volatility, cross market linkages 6. Transparency – ability of market participants to accurately gauge any of the above at any given time <ol style="list-style-type: none"> a. Potential measures or indicators: qualitative assessments of data availability, data quality (staleness, robustness of quotes), indicative vs. executed prices, concentration of trading/investment in more liquid instruments, increase in liquidity premiums <p>In addition, one can think about the average day-to-day conditions across each of these dimensions, as well as the fragility – essentially how quickly it could deteriorate from average levels.</p>
1.1.a	How do you define liquidity? How do you define liquidity provision?	<p>There is little in the way of publicly available data in which a deterioration of Treasury market liquidity is clearly observable. Treasury market liquidity has subsequently been an area that has largely defied empirical analysis by non-official institutions over the last few years. While there are a number of charts and data sets out there purporting to show declines in market depth, dealer positions, trading activity etc., these are often the product of some “creative chart-making”. This includes things like cherry-picking time frames or showing a series relative to Treasuries outstanding (which due to crisis related increases can make almost any series look like it is declining when placed in the denominator). Regarding the time frame the “global savings glut”, financial crisis, and a period of Fed asset purchases, makes it even more difficult to classify any trend in the data as deterioration, versus a return to more normal levels.</p>
1.1.b	Which measures are most indicative of the degree of liquidity? How might these measures be refined or expanded, if you were not limited by the availability of data?	<p>Rather than interpreting the lack of empirical evidence as proof that anecdotal reports are overblown, it’s more likely that shortcomings and gaps in the available data are preventing us from observing the real changes in liquidity that are occurring. This is particularly true of dealer-to-customer markets which are extremely opaque from a data perspective. While most inter-dealer platforms operate through a Central Limit Order Book (CLOB), and provide data on market depth and executions, the major dealer-to-customer platforms, through which most investors interact with the market, are operated as Request for Quote (RFQ) systems, and do not make data on market depth or execution available.</p>
1.1.c	How do different indicators provide information on different aspects of liquidity, and in what ways?	
1.1.d	Which measures best represent the resilience of liquidity, or the relationships between liquidity and volatility?	
1.1.e	To what extent are these measures of liquidity and the resilience of liquidity different from measures used in other markets that have witnessed similar market structure changes? What are the idiosyncratic factors unique to Treasury cash markets that may cause these measures to differ?	
1.1.f	What changes, if any, have you observed in these measures over recent years? Over recent months?	
1.1.g	What microstructure features of the U.S. Treasury futures and cash markets, including both IDB venues and dealer-to-client markets, have affected the functioning, liquidity, efficiency and participation in these markets? What features have affected the functioning of the Treasury market as a whole?	
1.2	What changes, if any, have you made or observed in investment, hedging, and trading practices a response to shifts in Treasury market structure?	<p>RBS has responded to the structural changes in the US Treasury Market, most notably a) the increased speed of trading, and b) what could be argued is a change from the role of dealer flow traders as liquidity providers in the overall market to liquidity takers (HFT systems being now primary liquidity providers) across ATS platforms, while remaining liquidity providers to investors, by building algorithmic based trading systems which can respond to and hedge client activity in the context of rapidly changing prices.</p>

No.	Question	Response
1.3	How does the way in which you transact in or provide liquidity to the U.S. Treasury market change during periods of stress?	RBS maintains that our role as a dealer is to provide liquidity to clients in all market conditions. As a dealer, RBS has seen our role of liquidity provider move towards one of liquidity taker within ATS platforms, as outlined in our response to 1.2, while at the same time, our dealer role of risk intermediary in the market - willing to price and accept risk in all market conditions, has become more prominent. That is, as a dealer we have less control over pricing based on our knowledge of market conditions, while increased risk in any given position. As a result, RBS is more cautious in providing liquidity and pricing risk in times or market stress based on other regulatory requirements with regard to electronic trading controls and capital preservation.
1.4	Looking forward, do you anticipate significant changes in the structure of the U.S. Treasury market absent further regulatory changes? What would be the key benefits and/or risks of these changes in market structure? What key factors are likely to drive these changes? What changes are you planning to your firm's investment and trading policies, strategies, and practices?	<ul style="list-style-type: none"> • RBS anticipates that based on market trends and technology advancements, the ability of large clients to interact with each other across anonymous electronic platforms will most likely become a reality. RBS believes that this will continue the trend of decreasing the role of dealer as liquidity provider, while in times of market stress dealers will continue to be relied upon as the primary risk intermediary due to the fact that in times of market stress, it can be expected that clients will be less willing to participate on these platforms, or will be generally moving positions in the same direction. It can be expected that focus of some client focused platforms will be on less liquid, non-HFT sectors. • Because of the liquidity provided in on-the-run Treasuries through the use of algorithmic trading systems, a further bifurcation between on-the-run issue and off-the-run issue / TIPS / etc. should continue, particularly in less liquid trading environments. • There is some indication that the "race for speed" in high frequency trading may be moving to or past the point of diminishing returns, resulting in less investment in algorithmic trading. • RBS continues to invest in infrastructure and controls in our commitment to clients in the US Treasury market. This includes a commitment to provide liquidity in all market conditions, which requires investment in state-of-the art technology to control risk while offering competitive pricing. In addition, RBS has recently re-structured our global markets business to acknowledge the different business requirements inherent in highly liquid, high volume markets traded increasingly electronically - rates and foreign exchange, and less liquid / structured products. While our approach to the markets will continue to evolve based on global regulatory change, global regulatory capital requirements, and other business parameters we do not anticipate a major change in this commitment. However, that said, RBS notes that recent regulatory changes require significant additional support staff, which fundamentally changes the economics of the dealer model. As such, any further regulatory changes should work to reduce, rather than increase the additional cost in producing each dollar of revenue, through such efforts as common identifiers and common reporting protocols, discussed elsewhere in this response.
1.5	What changes to the U.S. Treasury market structure, whether through public or private sector initiatives, might be advisable given the recent and expected future evolution? What role should the public sector play in driving or facilitating these changes?	RBS notes that the US Treasury market has evolved to be the most efficient and most liquid market in the world based on a strong partnership between public and private initiatives. The private sector must be encouraged to invest in innovation with regard to the market for the market to continue to perform as the key global market it has become of the last 4 decades. When participants in any financial market globally needs to adjust risk quickly, the US Treasury market has become a key place to do that, as significant volume can be absorbed extremely quickly. The public sector should continue to insist on proper controls with regard to managing market, operational, regulatory, and capital risks to participants, and protecting investors. However, this oversight must be done such that the efficiency and liquidity in the market is not jeopardized.

No.	Question	Response
1.6	What are the benefits and risks from the increased speed with which secondary market transactions take place? Do these benefits and risks differ across individual products (e.g. on-the-run versus off-the run securities)? How have market participants and trading venues responded to, or facilitated, improvements in speed, and how, if at all, should policy makers respond?	<ul style="list-style-type: none"> • With proper context, increased speed has brought additional liquidity through participation by less traditional market participants. These participants have also proven to be often have non-traditional risk appetites, further enhancing market depth and liquidity - that is, there is less risk of all participants moving in the same direction, exaggerating price movements, and allowing for rapid response to changing market conditions. In addition, it could be argued that the high volume, low spread, and ability to adjust risk quickly at low cost has brought in other participants not as sensitive to speed, further broadening the market despite the overall continued global concentration of investor portfolios. While RBS would agree that certain participants have left the market due to these structural changes, a negative impact from these exits in terms of liquidity, market depth, auction participation and other measures would be difficult to argue based on our view of market activity. • However, we note that the benefits (and risks) of these changes have generally been focused on the highly liquid on-the-run Treasury market. Market participants have responded to these changes through a general bifurcation of liquid instruments - moving to HFT systems - while less liquid instruments have found more efficient pricing and liquidity through RFQ or voice systems. • RBS acknowledges the risks inherent in increased speed. As a primary dealer, we have been on the front line in terms of adjustments over the last 15 years in how a dealer transacts in this environment. As one example, it could be argued that the ability for a human trader to react to a change in market input, such as new economic data, and accurately price risk for their firm or a client has been somewhat compromised, perhaps increasing market risk, because the trader may be reacting to stale price action - That is, the economics of an executing a trade or hedge may move away from the market maker faster than the market maker can execute. Thus a participant now has a large dependence on the quality of algorithms which must now be used to alleviate this risk, and particularly the speed and accuracy of the external inputs into those algorithms. We also must have systems and controls in place to identify both internal and external issues with automated trading on a real-time basis and limit trading against those issues. • RBS also acknowledges the significant costs involved in building the proper operating model for this high-speed environment in terms of state-of-the-art technology, connectivity, and controls. One could argue that the increased costs by definition should limit competition in the market, with subsequent impact on liquidity. And in fact the market has indeed seen less overall dealer participation and lower overall volume. However, based on any measure of market health - spread, depth, breadth, ability of the market to quickly price risk in all market conditions - it would be difficult to argue that there has been a broader negative impact on the market.
1.7	To what extent have changes in Treasury financing markets affected liquidity in cash Treasury markets, and what is the best evidence of those effects? Looking forward, do you anticipate major changes in the Treasury financing markets and how would this impact the functioning of the cash Treasury markets? How have firms modified their trading strategies in response to, or in anticipation of, these changes? What changes in Treasury financing markets could improve market efficiency? What are the potential benefits and risks to the Treasury market of increased access to central clearing of Treasury repurchase agreement ("repo") transactions?	<ul style="list-style-type: none"> • Balance sheet pressure has caused both Repo (Firm Financing) and Treasury cash trading desks to reduce their bid / offer sizes, which inherently reduces liquidity. The reason for these reductions are the strict need to ensure balance sheet limits and leverage ratio's are adhered too. Any overage is met with swift reduction of positions. • Increasing the pool of collateral that can be netted down will allow dealers to offer larger sizes and do more business. The more immediate impact would be felt by allowing Triparty (RIC's) to be netted. This proposal is outstanding and we would feel it would be the first step to increasing the pool of collateral to be netted down and potentially freeing up some balance sheet. • One caveat is that this should not just stop with the RIC's because their cash is just overnight for most counterparties and this limits the available pool of collateral (just overnight) to net down balance sheet. The Treasury market would see more benefit if GSE's / Sec Lenders etc. were included to be netted. It is our understanding that after the RIC's this is in consideration. GSE's can lend cash greater than 1 day and this would improve nettability of dates and collateral.
1.8	What share of trading (in the case of dealers, your own trading) is internalized? To what extent does it vary depending on security type (e.g., on-the-run, off-the-run)? How has this changed over time and how do you expect it to develop? What implications for the Treasury market, if any, do you see as a result of these developments?	Less than 1% of RBS trading is internalized.

No.	Question	Response
II. Continued monitoring of trading and risk management practices across the U.S. Treasury market and a review of the current regulatory requirements applicable to the government securities market and its participants		
2.1	Are the risk management controls currently in place at U.S. Treasury cash and futures trading venues, as well as firms transacting in those venues, properly calibrated to support the health of the U.S. Treasury market? Why or why not? Please list the types of controls that are employed, as well as planned changes or improvements. In addressing these questions, please consider the dealer-to-customer market, trading on IDB platforms, and the futures market, as applicable. In addition, please consider the following questions:	RBS uses a multi-pronged approach to risk management controls, from dealing authorities, individual trader limits, and error controls ("fat finger") to position limits at the trader and desk and firm level. Risk is measured and monitored on a real time basis against those limits. Generally limits are set using VaR methodologies. RBS is constantly assessing both risk levels and risk methodologies against a number of parameters, including new technology and concepts to improve risk measurement and control. Based on both real time experience and significant back-testing, RBS believes our risk management controls are adequate for all market environments. RBS would agree that risk controls for market participants is extremely important to the health of the market.
2.1.a	What policies and risk management practices at U.S. Treasury cash and futures trading venues, as well as at firms transacting in those venues, could be improved or developed to mitigate potential risks associated with increased automation speed, and order complexity? Please consider the risks posed by trading, risk transfer, and clearing and settlement.	RBS employs third party software with specific tools to stop trading at any time in both cash and futures. These "kill switches" are also incorporated within our automated trading algorithms. Combined with "hard stop" trading limits, RBS believes our approach mitigates potential risks. Risk management spends significant resources constantly assessing our current approach to ensure it meets regulatory, industry and RBS standards as market technology allows for faster and more complex trading. With regard to counterparty risk in terms of risk transfer and clearing, the nature of the Treasury market, with generally T+1 settlement, along with systems which monitor client trading against internal credit limits on a real time basis, mitigate settlement risk.
2.1.b	To what extent should venue-level risk management practices be uniform across Treasury cash and futures trading venues? For example, should there be trading halts in the Treasury cash market and should they be coordinated between Treasury cash and futures markets, and if so, how? Should Treasury cash, futures, options, and/or swaps venues coordinate intraday risk monitoring, and if so, at what frequency? If there were trading halts, how should they be implemented for bilateral trading activity in the Treasury cash market? What would be the primary challenges in implementing such trading halts, particularly given that trading in the U.S. Treasury cash market is over-the-counter, global in nature, and conducted on a 24-hour basis?	While venue-level risk management practices are extremely important, the global and complex nature of the markets, as well as the need to hedge risk external to these markets makes the intertwining of risk management and trading halts problematic. Further, the time lags inherent in any trading halt could create significant market and counterparty risk in times of severe market stress. For example, one or two minutes between the shut-down of venues could result in major market dislocations. Finally, it would be difficult to avoid an advantage for certain market participants in any shut-down protocol.
2.1.c	To what extent should U.S. Treasury cash market platforms be responsible for monitoring, identifying, and/or reporting suspicious trading activity?	Given the large percentage of trading crossing cash market platforms, RBS would support those platforms monitoring for activity with the caveats that: a) the term "suspicious trading activity" be very clearly defined in terms of counterparty location or parameters, pricing activity, volume, types of orders, etc; b) the issues around reporting (number of trades, clock synchronization, etc) be recognized and allowed for.
2.2	What internal risk controls are commonly employed by firms using automated, including algorithmic, trading strategies in the Treasury cash market? Are these different or similar to those used in the Treasury futures markets, and what are the reasons for any differences? How are such controls designed and triggered? How frequently are they triggered? What internal process controls commonly govern the implementation and modifications of trading algorithms?	See answer to 2.1. RBS employs VaR controls which look at total value of position. Trader controls and limits are also set to include both futures and cash trading and positions. Automated trading leans on the same dealing authorities, position limits, and trading controls as non-automated trading. Controls are triggered in a number of ways: alerts if position limits are being approached, automated escalation if a position limit is exceeded, as well as inability to add to position, and basic per trade hard limits at the trading venue, and embedded in RBS trading software. RBS has policies and procedures in place for review of all algorithmic and automated programs, which includes significant back-testing, review by IT, Risk and Trading Management, and Risk Committee sign-off prior to implementation.
2.3	What types of algorithmic trading strategies are commonly used by participants in the U.S. Treasury market? What features do those strategies have in common, and what features differ across strategies? What are the potential benefits and risks to an effective U.S. Treasury market functioning resulting from certain algorithmic trading strategies, certain order types, and/or particular trading venue policies or practices.	RBS cannot speak for all participants. As a primary dealer, RBS uses algorithmic strategies primarily to facilitate a response to automated client inquiries in a timely manner through both assessing market pricing and depth, as well as automatically hedging the transaction should the client accept our price. The benefit of employing these programs is to increase market liquidity through faster response to client inquiry, and reduction of RBS market risk through timely hedging of client transactions. At all times RBS has human monitoring of automated trading and position changes.
2.4	How are best practices used in evaluating, and updating, risk management systems at a given firm? How does your firm make use of TMPG's best practices (referenced above) for operations in the Treasury cash market? How can best practice recommendations be utilized in order to reinforce market integrity? What are the benefits and limitations of best practice recommendations?	RBS has always adhered to what the firm considers "best practices" as we have viewed them across the industry. We believe that the codification of these practices under TMPG, along with requisite accountability, results in a more robust, fairer market, with reduction of overall market risk. However, it is imperative that TMPG best practices be a) flexible in interpretation to allow for market innovation within those practices, and b) be a "living" document that is updated on a regular basis in consultation with the marketplace.

No.	Question	Response
2.5	What are the benefits and risks associated with the current structure for clearing and settling Treasury securities transactions in the dealer-to-customer market and on IDB platforms, as applicable. For example:	<ul style="list-style-type: none"> • The use of GSCC for inter-dealer settlement / clearing of Treasury Securities Transactions allows for a low cost, hyper efficient solution which enables high volume settlement while minimizing settlement risk. Given the volumes involved versus the speed of settlement with minimal number of fails or other transactional issues, the system remains the envy of the settlement / clearing world. • Because trades are matched virtually simultaneous with execution, the primary risk with GSCC is counterparty performance risk, as the trades are bilateral trades throughout the process, versus a clearing house concept. However, a) this risk is minimized based on the qualifications required to clear via GSCC, b) the short settlement period of most US Treasury transactions, c) the high liquidity of the underlying markets. • The fact that dealer to customer transactions generally clear through a custodian adds a layer of complexity to the settlement process. However, this complexity is offset by a) legal protections offered to the investor through the custodian process, b) diversity of settlement risk, which, in the opinion of RBS, offset the benefit of clearing all trades within one central clearing entity. • RBS does see advantages in reduced risk and potential less capital committed to trading with a clearing process that reduces intra-day credit exposure among counterparties due to central clearing. However, there must be significant payoff with regard to this advantage given the GSCC and current custody infrastructure built into the current market, along with significant costs necessary to change this process.
2.5.a	Are intraday margining practices in the Treasury cash market for both cleared and non-cleared transactions currently sufficient to protect against counterparty risk, especially in light of the speed at which positions can be accumulated? What options are available to improve margining practices? Should the maximum potential intraday exposure of firms be calibrated relative to their level of capital? If so, how should it be calibrated? Are alternative measures of potential exposure more meaningful for automated trading strategies, and if so, which type of measures?	RBS does not request and is not requested by counterparties to provide intra-day margin in the Treasury cash market.
2.5.b	Currently, there are no statutory requirements that require participants to centrally clear cash Treasury transactions. Should such a requirement apply to any participants, particularly those with large trading activity or large positions? Would the secondary market for cash Treasury securities benefit from broader participation in centralized clearing? Why or why not?	<ul style="list-style-type: none"> • From an operational viewpoint, a central clearing process versus bilateral settlement is preferred due to several increases in efficiency. These range from electronic feeds to the central location (i.e. GSCC), matching of trades, and settlement netting by cusip at the central location. This may be best implemented by cascading requirements through defining counterparties based on their type of participation (broker-dealer) or level of participation (volume traded). There might be some IT cost, but counterparty categorization may create the need for some reference data overhead. • In general, we would encourage broad participation, as the more participation across all parties, the more benefit for operational and capital efficiency. • However, there are a number of issues as outlined in our general response to 2.5 above which may create significant issues with moving to a central clearing counterparty framework versus the current GSCC framework.
2.6	Many of the standards applicable to U.S. securities, commodities, and derivatives markets are not applicable to the U.S. Treasury cash market. Which differences, if any, should be addressed and how should standards be aligned? How will these affect the cost of accessing or participating in these markets, as well as of transacting in these markets? Would there be any implications to U.S. federal government borrowing costs? In addressing these questions, please consider the dealer-to-customer market, trading on IDB platforms, and the futures market, as applicable. In addition, please consider the following:	<ul style="list-style-type: none"> • In the RBS view, away from questions and comments in 2.6.a and 2.6.b, the primary standard applicable to other markets that is not applicable to US Treasuries is the dissemination of price and volume data. Based on the structure of the market, and requirements of primary regulators for large volume participants with access to the inter dealer brokerage systems, other requirements, such as compliance regimes, credit checks, AML and other KYC requirements, disclosures, conduct requirements, etc are applicable to market participants. However, RBS notes that with regard to price / volume dissemination: A) US Treasuries trade within the most narrow spreads of any market in the world, in high volume; Markets with few exceptions maintain acceptable liquidity in all trading environments, and remain the primary hedging vehicle when other markets are failing to provide liquidity. If apparent lack price dissemination was limiting market participation, we believe it would be indicated in liquidity issues. B) All major participants and most minor participants have direct or one-off access to real-time price information at relatively minimal cost. Volume information cannot be attained, but it could be argued that given the depth of the market, and the requirement to development off-the-run prices from on-the-run information, volume data may be of little additional benefit. • Based on RBS pricing and knowledge of pricing across the entire spectrum of Treasury investors, and the obvious efficiency in US Treasuries relative to any global market, it is difficult to discern how any change in structure could possibly reduce borrowing costs. However, change in structure without thorough analysis of potential impact on market participation could in fact reduce liquidity and increase borrowing costs.

No.	Question	Response
2.6.a	What implications would a registration requirement for firms conducting certain types of automated trading, or certain volume of trading, in the U.S. Treasury market have on market structure and efficiency, investor protection, and oversight?	Due to the changing technology landscape and rise of high frequency and other automated trading, with access of non-primary, high volume participants to the inter-dealer market, RBS is very cognizant that several of the largest participants in the market are not required to follow many of the regulatory standards which apply to the primary dealer community or other dealer participants. RBS does not believe registration requirements and accountability to best practices will reduce the participation or significantly increase participation costs for these participants. However, RBS does believe that any such registration process should only apply to those participants who are not required to adhere to FINRA or other regulatory standards with regard to market conduct, risk controls, etc.
2.6.b	Should firms that conduct certain types of automated trading, or certain volume of trading, in the U.S. Treasury market be subject to capital requirements, examinations and supervision, conduct rules, and/or other standards? What would be the implications of each?	<ul style="list-style-type: none"> • The Treasury would need to define the nexus of the automated trading versus access to the market. Most major participants already are subject to capital requirements, examinations and supervision, conduct rules, etc.as a result of various other regulations, or the fact that their access to the markets is through such an entity. • If Treasury analysis indicates a major participant in certain types of high speed automated trading is not subject to these parameters either directly or indirectly due to requirements of a dealer providing access, RBS would be in favor of some minimum standard applicable to only these participants. However, in general, the benefit of market risk reduction must be weighed against the potential cost in terms of liquidity that generally occurs in the event of increased regulatory or other market participation cost.
2.7	Should self-trading be expressly prohibited in the cash Treasuries market? Does self trading provide any benefits to the markets? Are there risk management tools, either at trading firms or at trading platforms, which can effectively reduce levels of self-trading and improve trading efficiencies?	<ul style="list-style-type: none"> • (RBS defines self-trading as trading across an external platform with an internal trading account.) • RBS does not support a prohibition of all self-trading. Based on industry analysis of self-dealing with regard to proposed CFTC automated trading requirements, regulators would need to define self-dealing in very narrow terms based on current market structure. • There may be legitimate reasons why various participants at the same dealing entity may be trading for different purposes, and, as a result, deal across an electronic platform with each other. For example, while RBS has controls in place to identify self-dealing across any one trading desk and, in some cases across the same region for purposes of operating efficiency, there may be a case where a corporate bond desk could be hedging in one direction while a trader is executing or hedging a multi-faceted trade for a client on a different desk, with the result that could be defined as self dealing under some parameters. In a volatile market a trader will often execute the trade via a platform knowing the firm is on the other side of the trade, rather than located the other trader and assess the parameters of the other trade. Therefore RBS does not see the benefit to the US Treasury or for market efficiency or liquidity in prohibiting all self-trading. • However, RBS does recognize the risk to market integrity of certain self-dealing through error in algorithmic trading systems, or with purposeful intent in order to artificially influence market prices or volume, or to otherwise influence the actions of other market participants against this "artificial" trading. RBS would support a regulatory framework to limit this risk to market integrity through narrowly defining "self-dealing" as a participant dealing through an external platform with the same or another trading account at that entity or a direct affiliate, and restricting self-dealing in any instance where the sole purpose is to influence market data or participation.

III. An assessment of the data available to the official sector on U.S. Treasury cash securities markets		
3.1	To what extent can trading practices in U.S. Treasury cash and futures markets be effectively monitored using only transaction and/or order data from one, not both, of those markets? Is it necessary for regulators to have visibility across all U.S. Treasury cash and derivative markets in order to more effectively monitor and oversee trading behavior in any one market? What aspects of U.S. Treasury market monitoring require data collection across cash and derivatives markets?	RBS is of the view that cash and financial futures markets are directly linked, and as such it is very difficult to monitor one market without the context of the other market. For example, significant long positions in one market without the context of hedged positions in another market are not relevant. Regulators currently have significant visibility with regard to the two major markets impacting US Treasuries - the US Mortgage market and US Financial Futures markets. While RBS does not support significant increased reporting requirements as per our response to Question 3.6, we do agree that visibility across all relevant markets is important. However, for efficiency of both regulation and markets, RBS would like to see one single reporting protocol and reporting entity with regard to this visibility.
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? What level of data granularity is necessary for sufficient monitoring to be performed (e.g., transaction data, inventories or positions, order book data, and other additional data) across venues?	As per answers to Question 3.6, RBS does not believe information on order book would assist regulators given the structure, volume, and speed of the market. High level transaction data - volume, volume at price, number of transactions, and transactions by investor types on a daily basis may be helpful to market analysis, while minimizing additional cost to participants in providing the data.

No.	Question	Response
3.2.a	Should all transactions in securities issued by Treasury be subject to reporting or should reporting be limited to secondary market transactions, on-the-run benchmark issues, or some other subset of securities?	Defining "primary" transactions in US Treasuries is often problematic based on booking procedures. However, if narrowly defined to specific auction transactions, perhaps reporting could differentiate. Other than that, we do not see any need to limit reporting.
3.2.b	Should repurchase agreement transactions be reportable?	Given the complexity of repo transactions, specifically Tri-party and bilateral transactions at a minimum, as well as other complex financing structures, defining reportable transactions may be problematic. Further, the regulatory structure of the repo market has been built over the last 3 decades to successfully limit counterparty risk, most recently with the reform of the Triparty process. For regulatory purposes, these requirements, and requirements by the Federal Reserve with regard to large position reporting minimize systematic risk within the repurchase agreement market, such that any gain in regulatory oversight from additional reporting would be minimal.
3.3	What criteria should be used to determine who should report to the official sector? Should both counterparties (buyer and seller) be required to report a trade or is one-sided reporting preferable? Should reporting requirements depend on the platform or execution method? Should only a subset of participants, such as brokers, dealers, futures commission merchants (FCMs) and commercial bank dealers be required to report transactions? Should other parties to a transaction, such as banks and PTFs, be required to report? Should trades executed on automated trading venues be reported by those venues and not the individual brokers, dealers, FCMs, bank dealers, etc. transacting on such venues?	<ul style="list-style-type: none"> • RBS notes that based on experience in other regulatory frameworks, bilateral reporting substantially increases the required technology and controls for compliance, with minimal additional benefit to the regulator or public, and thus we do not support any bilateral reporting requirements. • RBS believes a hierarchy of reporting, beginning with exchange / ATS, then selling dealer in dealer to dealer transaction, then dealer in dealer to client transactions, etc. would be most efficient reporting process. • While RBS argues in other comments that the benefit versus cost of additional reporting is problematic, we also note that partial reporting, e.g. reporting by certain subsets but not all participants, would further limit the benefit of reporting, although a daily or per trade volume threshold may allow for some value with reduced cost.
3.4	Should transaction reporting include identifiers for categories of end investors? What are the costs and benefits of this approach? What alternatives should be considered to permit monitoring of positions and market activity?	RBS requests that consistent client classifications and identifiers be used across all clients and regulatory regimes. The build and continuing costs for implementation of reporting systems are very significant. This cost increases geometrically, and potential for error increases greatly given the different reporting requirements and identifier protocols among regulators.
3.5	For those instruments subject to official sector reporting requirements:	
3.5.a	Should all transactions be subject to the same reporting time requirement? Are the answers different for different types of transactions or instruments?	<ul style="list-style-type: none"> • While we are not sure of public gain from the implementation of reporting for all transactions, there may be some firm-specific gain from the operational side being able to recognize all the legs of a trade. For Treasury transactions tied to a structure (i.e. Treasury is one of the legs of the trade), which would be reportable currently, there would be some transparency gain from reporting both sides of the trade. If implemented, this should be done at the central clearing location or e-commerce platform where the transactions are executed. Reporting time requirements should follow suit with existing logic of similar fixed income products (i.e. TRACE). • Difference in timing should be based on form of execution / type of platform, rather than instrument type. • Depending on scope and implementation, this could require heavy IT development.
3.5.b	Should cross market transactions have special indicators to link the different legs of the transactions?	In any reporting regime RBS believes it is imperative that there be an indicator that a trade price is linked to another market, either generally, or by market category, such as "F" on a cash trade linked to a futures basis trade, or "B" for a cash butterfly trade. Without this context, even minor price discrepancies will make reporting of prices irrelevant.
3.5.c	Are there specific trades and/or trading strategies that should be considered for additional identification to ensure that regulatory organizations can accurately interpret the data (similar to Dollar Rolls or Stipulations on deliverable collateral in mortgage to-be-announced trading)?	Identification of specific trades/strategies does not carry special improvements to the operational processes, but if built at the e-commerce platform level, they can offer execution, reporting, and matching transparencies.
3.5.d	Are there other industry practices and/or special situation information that should be considered for reporting?	Nothing further from an Operations point of view. That said, any additional reporting relating to Treasuries should leverage the existing infrastructure and process already in place for TRACE. This would reduce unnecessary infrastructure/IT costs.
3.5.e	Should trade allocations be reported? Are there any special pricing issues that should be considered (e.g. mark ups, commissions, ATS fees) or is dollar price adequate for determining the price of the trade?	<ul style="list-style-type: none"> • From a market data informational standpoint, given current market structure, little can be gained by the entity receiving data on the allocation of a trade to sub-accounts data, as there is generally no price differential or other market impact due to a trade allocation versus the block amount. • If the focus will be in increasing the STP rates on allocations, then it makes it easier to process trade allocations for reporting to GSCC. Dollar price is adequate from an Operations perspective. Again, the preference is that the allocation comes from an e-commerce platform to eliminate the email/Bloomberg message that then requires manual updates to internal systems.
3.5.f	Should settlement date and/or other settlement terms be reportable?	<ul style="list-style-type: none"> • Settlement Date versus Trade Date can be a key pricing factor and therefore should be reportable to give price context. • Matching terms on GSCC should be considered. Trade Date is the only additional component that is currently not included for GSCC matching.

No.	Question	Response
3.5.g	Are there any special considerations/conditions for determining the time that a trade is executed? Does this differ across trade types or venues?	<ul style="list-style-type: none"> Electronic trades' execution time are apparent once agreed to on the e-platform. Voice trades are dependent on user submission, but aim to be as close as possible to actual agreement between client and sales/trader. This would be similar to current state with TRACE. Time starts ticking when one party in the bilateral agreement uploads their side of the trade. In executing trade supervisory responsibilities for assessing price discrepancies against market levels, RBS has found that in the case of volatile markets, given the high volumes in US Treasury markets, a few minutes can make a timestamp on a trade versus actual trade time moot. Further, the agree upon price on an RFQ platform may differ from current market level in certain market conditions. Therefore, assuming that investors will continue to have reason to negotiate transactions away from a central order book platform, the exact time of execution is relevant respective to price, but may be difficult to capture.
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? Are there unique characteristics of such transactions that should be identified? Should the order type giving rise to a particular execution be captured? Are there any other unique methods of transacting in the Treasury market that should be identified?	The implementation of this level of transparency might improve exception investigation internally, but would not be a major benefit as it would be offset by the cost of implementation. We would question whether there is a benefit in identifying these on a public level.
3.5.i	Should transaction counterparties be identified uniquely or categorized by counterparty type? If the latter, what counterparty types should be identified? Are there generally accepted definitions for these categories of counterparties?	Counterparties may be best identified by cascading requirements through defining counterparties based on their type of participation (broker-dealer) or level of participation (volume traded). Unique identifiers for each counterparty can add an additional layer of transparency, but also add another library that needs to be managed street wide. These changes are best implemented at the execution facilities, with participating firms consuming the information in a preset format.
3.5.j	For transactions that are already subject to reporting requirements to the official sector, are there particular data standards or identifiers that should be used for the reporting of transactions in the Treasury cash market to aid harmonization? What transmission protocols, data standards and identifiers should be utilized to enhance authorities' ability to integrate data, share information and cooperate on analysis, for both existing and new data reporting?	Initial reporting requirements following current schemas in TRACE corporate bond reporting would probably be easiest to implement due to existing infrastructure. Initially, trades might be best identified as vanilla (Treasuries only) vs linked transactions (part of larger structure).
3.5.k	Should the identification of registered market participants be "normalized" across U.S. Treasury cash and futures transactions such that there is a consistent and unique moniker used to identify each individually registered entity?	Normalization of market participants across product lines offers efficiencies in static data maintenance; additionally improving onboarding of counterparties, as well as their similar categorization across different markets. However, these improvements might come at a sizeable cost for implementation.
3.6	For those securities subject to official sector reporting requirements:	
3.6.a	Should quotes and/or orders be reported? If so, should special consideration be made for certain types of quotes and/or orders (e.g., electronically submitted orders versus voice orders versus RFQ)? Are there any special considerations when defining an order and/or quote? How will these special considerations affect the ability of the official sector to analyze activity in the Treasury cash markets?	Based on the structure, speed, and depth of the US Treasury market, RBS is of the overall view that reporting of quotes and / orders were of minimal value to the market or to regulators. As one example, reporting of orders in a highly volatile market would be of little value without the full context of market activity at the time. Therefore, if certain orders were required to be reported, RBS believes significant effort must be taken to define in-scope order types in terms of quantity, type of security, type of venue, and type of order, with a stated purpose for requiring such reporting.
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?	Given the structure of the market and the continuous real time pricing of the market, there is questionable value in real time reporting of transactions, quotes or orders. In low volume markets, this information can be extremely important to regulators in determining potential market abuse or questionable market practice. However, US Treasury markets have multiple price prints every second during market hours, and these price prints are well disseminated, with the combined effect of minimizing the opportunity for market abuse, while also making it very difficult to analyze reported information in this context.
3.6.c	Are there additional elements that are important for regulators to understand beyond the categories of quote/order originator, price, size and time of the order (e.g., inventory or position data)? Should the type of an order or any special order instructions be collected? Should all order changes be reported? Is the answer different for electronically submitted versus voice submitted orders?	As discussed throughout this section, ability to analyze the huge amounts of data with proper context is extremely problematic given the size and volume of the US Treasury market. Further, given the proven ability of the market to react efficiently to both internal and external stimuli, price discovery and volume processing is not an apparent issue. Similarly, whereas in certain markets such as individual equities, commodities, etc., position data can be very helpful in discovering structural issues with the market, in US Treasuries position data above and beyond what is currently required by regulators would appear to be of little value without gathering proper context given the size and structure of the market. It also should be noted that with regard to all reporting, the cost of building adequate reporting and control systems must be taken into account, which would be significant given the size and breadth of the market. The cost and difficulty of gathering this information for voice trades and controlling for compliance is especially problematic. Significantly increasing the cost structure in this way would most likely result in a large reduction in market participants, which by definition will impact liquidity and price discovery in a negative way, particularly in highly volatile market environments.

No.	Question	Response
3.6.d	Should the submitter of a quote and/or order be identified uniquely or categorized by counterparty type? If the latter, what counterparty types should be identified? Are there generally accepted definitions for these categories of counterparties?	It is important that what ever identifier system is used is considered and built in coordination with global regulatory bodies, and within the capacity and design of current reporting system. Recent issues with compliance with numerous reporting requirements on the part of regulators has centered on widely varied requirements creating confusion and internal system conflicts. Counterparty type identification should also be consistent across global regulatory requirements.
3.7	Is it appropriate to have transactions, orders, and quotes time stamped at a certain clock precision (e.g., microsecond) level? Are the answers to these questions different for different types of transactions (e.g., electronic or voice) or different products (e.g., Treasury bills, notes, bonds, on-the-runs, off-the-runs, cash, or futures)? Would the answer be different for trade reporting, quote reporting, or order reporting? Would the answer be different for different categories of market participants?	Should additional reporting be required, on the one hand it is imperative that a timestamp within the parameters of average market execution time be considered, along with typical volatility cycles - certainly under 50 milliseconds. However, the cost of producing data and relaying the data effectively could be cost prohibitive. Most importantly, reporting data in any reasonable time increment in the context of the market would assume that all dealers, all inter-dealer brokers, and all other participants have time stamp clocks synchronized. More problematic as example in fact, RBS may have an order in with Nasdaq eSpeed for a client. eSpeed may execute that order in under 10 milliseconds. However, it may take 1 second for the transaction to be reported via telecommunications from the RBS "box" at eSpeed to RBS systems in Stamford, and subsequently relayed to the client. Thus the time and volume could become moot in analyzing data around that trade.
3.8	Do commercial bank dealers and broker-dealers have technology infrastructures and order/execution handling in place to report trades on a continuous basis?	Current RBS trade processing systems are designed to confirm and process orders with counterparties as quickly as possible. Additional reporting requirements to relay this information to a regulator with demand significant resources for system enhancements. Further, time stamping of these trades on the exact execution time is not imperative for client trades. However, as noted, for data to be of use to regulators, an exact execution time stamp would be necessary.
3.9	As the official sector begins to collect additional data on the cash U.S. Treasury market, what operational or market factors should be assessed? Are there particular negative consequences from the implementation of data collection? If so, what are they and why do they arise?	RBS does not believe that high level analysis of Treasury Market data to assess potential regulatory reform is problematic, and RBS in fact encourages that effort. Liquidity and price discovery should not be impacted by such efforts. In addition, ability to identify potential issues with regard to types and path to market of all major participants at a high level is important for the integrity of the market. However, as noted above, real time reporting, or end of day reporting without significant restraints on the amount of data required, could have a significant impact on the depth, price, discovery, and liquidity in the market due to the cost and compliance burden typical of such reporting.
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?	As noted, RBS requests that any system considered be in line with current reporting regimes. The larger issue with reporting in the Treasury Market is the wide scope of participants, and the variety of methods in how they access the market. This is a major attribute of the market allowing for depth and liquidity which could be compromised by any reporting regime. That said, as indicated in the Treasury RFI preamble, a very large part of Treasury Market volume flows through two alternative trading systems. As such, it may solve much of the regulator concern to simply capture the ATS data, similar to the collection of equity market data.
3.9.b	Would one approach impose fewer burdens on smaller reporters than another? If so, why and by how much?	See answer to 3.9.a
3.9.c	Is the answer different for trades, orders, quotes, or execution methods?	No.
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? If yes, how and why? Does phasing affect the cost of implementation for market participants? What transmission protocols, data standards and identifiers should be utilized to minimize reporting burdens?	RBS would require significant lead time to assess, budget, build and test any reporting regime above and beyond current requirements. As products are relatively generic, phase-in would probably assist the receiver in handling such huge volumes of data, but would not have any impact on RBS, as we would need to build out a system assuming full compliance. Standard protocol such as FIX, with "off-the-shelf" available technology and technologists should be used.
3.11	Will the requirement to report transactions in the Treasury markets affect competition in this market? Who would be affected and how? What data or empirical evidence support this position?	RBS believes that competition in the US Treasury Market would be significantly changed unless any additional reporting requirements are carefully considered and implemented, based primarily on the significant increase in cost as indicated in recent other regulatory reporting requirements.

No.	Question	Response
IV. An assessment of the data available to the public on U.S. Treasury cash securities markets		
4.1	Is the publicly available information for U.S. Treasury market trading activity sufficiently transparent to foster an efficient, healthy, and liquid market? What changes to public reporting would be most advisable, if any, including the use of data standards and identifiers?	Please see answer to Question 2.1.0. As noted above, based on any definition of highly efficient market, the US Treasury market is the most efficient and liquid market in the world. In terms of persistent volume, spread, and market performance and change in spread in times of market crises, the market has proven to be very healthy in those terms. Therefore RBS is of the belief that there is minimal benefit if further enhancing publically available information assuming the goal is market efficiency / visibility. The US Treasury market uses CUSIP numbers as securities identifiers. The anonymity of the market is a major reason for its success - to publically identify participants through trade identifiers would have a detrimental effect on market liquidity.
4.2	What additional information should be made available to the public in order to better assess liquidity conditions in the U.S. Treasury market, and at what frequency? For instance, should there be readily available transaction cost data that accounts for price movements that occur from the initiation of a trade request on RFQ platforms?	Identifying price movements from the initiation of a trade request on an RFQ platform would be problematic for a number of technology and control reasons. Given that a participant on an RFQ platform typically a) is an institutional investor with significant knowledge of both current price and current market environment, and b) receives 5 immediate responses to the RFQ, typically at the exact same price, RBS questions any potential gain to the investor or other participants from the dissemination of this data, given the technology and control issues. There may be some benefit to the public of more coherent daily price and volume data than is currently available to the public.
4.3	If additional public transparency is necessary at the transaction level, what is the most appropriate level of transparency for publicly available data on trading in the secondary market? Should additional public transparency be phased in over time in any way? Should all quotes and/or orders in the inter-dealer market be made public, or just "top of book"? What characteristics should be reported (e.g., participant type, aggressor side, volume, price)? Should the release of any or all of the data be in real time or delayed? Should the available data differ depending on the age of the security, size of the transaction or other characteristics of a particular security or transaction?	Again, given the efficiency of the current market structure, and the fact that there is significant transparency in the current market for most participants and well in excess of 99% of volume, gains from additional transparency would be questionable. However, if additional transparency is required, delayed dissemination of transactions and top of book, similar to other markets, should be all that is necessary so as to have minimal impact on the current efficient market structure.
4.4	Is there an existing public reporting model that would be appropriate, in whole or in part, for the U.S. Treasury market (e.g., swap data repositories for swaps, or FINRA's Trade Reporting and Compliance Engine (TRACE) for corporate bonds and agency mortgage backed securities), or would the Treasury market benefit from a new model?	RBS favors the TRACE model from an operational standpoint, assuming the ability to scale TRACE reporting models to the extreme volume and transaction levels of the Treasury market. Systems used with the commodities markets may also be appropriate. RBS does NOT favor the creation of a new model given the cost and evolution required to seat a new model.
4.5	What additional information should be available to the public about the operation of trading platforms or trade execution algorithms on trading platforms (for inter-dealer as well as dealer-to-customer platforms)? For example:	
4.5.a	Should information about order types, agreed upon fee arrangements, user agreements, and/or brokerage agreements be disclosed?	RBS questions the advantages versus the anti-competitive issues around disclosing contractual agreements between two parties. Certain exchanges, and swap execution facilities have moved to common pricing and arrangements. RBS does not believe that this should be a requirement, unless an exchange or ATS allows for exchange of this information among a group of counterparties, in which case the information should be made public for all counterparties.
4.5.b	Should the degree to which subscribers to the platform may limit their interaction with or exposure to other subscribers be disclosed?	There are a large number of reasons as to why a subscriber may limit activity. There is a significant risk that such information may be taken out of context regardless of level of disclosure. Therefore the information will either be ignored, or used out of context, possibly indicating an issue where one does not exist. Therefore RBS is of the opinion that this information should not be disclosed.
4.5.c	Should the degree and extent to which the sponsor of a platform trades on the platform be disclosed?	RBS would not find this information relevant.