Let me begin by thanking SIFMA for inviting me to speak at today’s meeting. In my remarks, I will focus on the progress made by the official sector towards enhancing the resilience of the Treasury market.\footnote{1}

The Treasury market plays a critical role in financing the federal government, supporting the broader financial system, and implementing monetary policy. To ensure the Treasury market continues to fulfill these vital purposes, the official sector needs to seek continual improvements that strengthen the Treasury market and keep pace with changing technology and trading patterns.

In addition, amid the increase in economic and market volatility since the beginning of the year, reduced market liquidity has served as a daily reminder that we need to be vigilant in monitoring market risks. While the Treasury market continues to operate through today’s macro uncertainties, episodes of market stress, for example in March 2020, September 2019, and October 2014, underline the importance of understanding market vulnerabilities and exploring ways to enhance Treasury market resilience.

Last November, Treasury, in conjunction with the Inter-Agency Working Group on Treasury Market Surveillance (IAWG), released a staff progress report to update the public on its work.\footnote{2} Although each agency has distinct roles and authorities with regard to the Treasury market, the agencies are collaborating to better understand the issues and work together toward shared goals.

In the ten months since the publication of the staff progress report, we have already made significant progress. Before highlighting the key elements of progress, I want to be clear about our objectives. These actions, or any official sector actions for that matter, are not meant to eliminate volatility or completely insulate the market from periods of stress. Instead, the aim is to increase the ability of the Treasury market to absorb, rather than
amplify, potential adverse shocks and disruptions. At the same time, we recognize that some shocks can be extreme, such as the COVID pandemic, and official interventions may still be necessary even with substantive reforms.

The report highlighted five workstreams the IAWG has prioritized.[iii] Today, I plan to focus primarily on progress made on the workstreams related to data transparency and changes in Treasury market liquidity demand, areas where Treasury can and has played a more active role.

**IMPROVING DATA QUALITY AND AVAILABILITY**

Turning to data transparency, access to high quality data on a timely basis is critical for market functioning. For the official sector, data enable analysis of the effects of current and potential policies, as well as prompt and effective responses if stresses emerge. For market participants, data provide confidence in the market’s fairness and efficiency, and inform trading decisions.

The official sector already collects substantial data on the Treasury market, including data on most cash market transactions through TRACE, as well as most centrally cleared or triparty repo transactions. These data have proven invaluable in policymaking and have been improved incrementally over the years. Just this month, TRACE began to include data on transactions by certain depository institutions, closing an important data gap.

One of the largest remaining data gaps is in the market for non-centrally-cleared bilateral repo transactions. The Treasury Department’s Office of Financial Research has met recently with various industry participants to better understand current practices in this market and conducted a pilot data collection with a limited number of market participants. The pilot collection was designed to prepare for a rulemaking that would establish a permanent data collection covering the broader market.

Treasury also is considering providing additional data to the public on secondary market transactions of Treasury securities. Previous incremental increases in transparency appear to have benefited markets, and there may be room to do more, though it is important to avoid creating disincentives for intermediaries to provide liquidity.

In June, Treasury published a request for information to solicit public feedback on additional transparency for secondary market transactions of Treasury securities. The comment period
recently closed, and we received 28 comments from a broad range of market participants. The comments include diverse opinions on the potential benefits and costs of additional transparency, but were overall supportive of the official sector’s objective to enhance Treasury market resilience. Differences focused on the pace and extent of transparency that should be provided. We plan to provide an update on our initial findings at the upcoming Treasury market conference on November 16.

Also, the SEC recently approved two proposed amendments from the Financial Industry Regulatory Authority regarding TRACE for Treasuries: First, an amendment to shorten the reporting timeframe to 60 minutes and increase the granularity of transaction details reported. And, second, an amendment to publish the aggregated Treasury security transaction statistics on a more frequent basis, such as moving from weekly to daily publication.

EXAMINING EFFECTS OF LEVERAGE AND FUND LIQUIDITY RISK MANAGEMENT PRACTICES

Let me turn next to the growing size and influence of certain investor positions and trading flows on Treasury market liquidity. Since the global financial crisis, open-end corporate bond funds have grown substantially as a share of corporate bonds and as a share of Treasury securities. However, the daily liquidity offered to shareholders does not reflect that the funds’ underlying assets can be significantly less liquid, creating a first-mover advantage. This first-mover advantage can create a surge in demand for bond market liquidity in stress periods when investors want to flee to cash-like assets. While Treasury securities are an important liquidity risk management tool, they can be the first securities sold in a stress period – given their higher liquidity relative to other bonds – possibly amplifying stresses in markets. In such periods, highly-leveraged hedge funds may also need to liquidate assets, including Treasury securities. These scenarios played out in the “dash for cash” in March 2020, when hedge funds and open-ended bond mutual funds were two of the largest participants in the broad selling of Treasury securities.

In 2021, the Financial Stability Oversight Council made it a priority to evaluate and address the risks to U.S. financial stability posed by these funds and established working groups to bring together the agencies to share information and expertise. On the international front, the Financial Stability Board will make a set of recommendations to mitigate issues of structural liquidity mismatch in some open-end funds. SEC Chair Gensler has asked the SEC staff to
consider changes to rules for open-end funds, including related to fund liquidity, pricing, and resilience in stress periods. In addition, for hedge funds, the SEC and CFTC jointly proposed additional amendments to enhance reporting by large hedge funds, which should improve the ability to monitor systemic risk. This includes refining the reporting of investment exposures and leverage as well as better differentiating between positions in the cash versus derivatives markets for Treasury securities.

**OTHER WORKSTREAMS**

As you know, the IAWG highlighted three other workstreams – improving resilience of market intermediation; evaluating expanded central clearing; and enhancing trading venue transparency and oversight – and there has also been progress made by the agencies.

- The Federal Open Market Committee announced the establishment of a domestic standing repo facility and a repo facility for foreign and international monetary authorities.
- The SEC proposed rules outlining specific qualitative and quantitative criteria for determining whether a market participant must register as a dealer or government securities dealer and comply with the associated rules.
- Also, the SEC re-proposed regulations for oversight of and public disclosures by Treasury trading platforms, including removing the prior government securities exemption and expanding the definition of exchange to include a broader set of trading venues, such as request-for-quote platforms.
- And, just last week, the SEC proposed rule changes that would enhance risk management practices for central counterparties in the Treasury market and facilitate additional clearing of Treasury securities transactions.

We have compiled a list of all the progress the IAWG has made, which we will be posting, and plan to discuss more at the November conference.

To conclude, we have taken important steps forward on enhancing the Treasury market’s resilience and have a strong roadmap for continued improvements. We will continue to engage with market participants and seek public comments, and greatly appreciate the feedback we have already received on this important project.

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[i] See the fact sheet released today on the official sector’s progress in enhancing the resilience of Treasury markets.
The Inter-Agency Working Group on Treasury Market Surveillance (IAWG) is comprised of staff from the U.S. Department of Treasury, the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York, the U.S. Securities and Exchange Commission, and the U.S. Commodity Futures Trading Commission.

The five workstreams are: improving resilience of market intermediation; improving data quality and availability; evaluating expanded central clearing; enhancing trading venue transparency and oversight; and examining effects of leverage and fund liquidity risk management practices.