

March 1, 2021

Ms. Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549–1090

Re: Regulation ATS for ATs that Trade U.S. Government Securities (File No. S7-12-20)

Dear Ms. Countryman:

Citadel appreciates the opportunity to provide comments to the Securities and Exchange Commission (the “Commission”) on the proposal to modernize the regulatory framework for multilateral U.S. Treasury trading venues (the “Proposal”).¹

Under current Commission regulations, a multilateral trading venue that solely trades government securities and is registered as a broker-dealer or is a bank is exempt from registering as an exchange or an alternative trading system (“ATS”).² By removing this registration exemption, the Proposal significantly improves market transparency and resiliency. In particular, multilateral U.S. Treasury trading venues that meet the Commission’s definition of an ATS will be required to, among others, (a) provide transparency to market participants regarding key aspects of the platform, including potential conflicts of interest, order types, subscriber segmentation, and fees, rebates and incentives, and (b) comply with fair access requirements that prohibit the arbitrary exclusion of specific market participants (if the platform surpasses specified volume thresholds). These requirements promote market integrity and help to ensure that multilateral U.S. Treasury trading venues are subject to appropriate regulatory oversight.

However, as detailed in the accompanying concept release on the electronic corporate bond and municipal securities market, the Commission’s current definition of an ATS has been interpreted to exclude multilateral trading venues utilizing request-for-quote (“RFQ”) trading protocols, which are some of the most significant multilateral trading venues operating in fixed income markets regulated by the Commission, including the U.S. Treasury market.³ Multilateral RFQ trading venues dominate the dealer-to-customer segment of the U.S. Treasury market and in aggregate account for approximately 50% of total electronic trading volume on multilateral U.S.

¹ 85 Fed. Reg. 87106 (Dec. 31, 2020), available at: <https://www.govinfo.gov/content/pkg/FR-2020-12-31/pdf/2020-21781.pdf>.

² See 17 CFR 242.301(a)(4)(i) and (ii)(A).

³ See also U.S. Securities and Exchange Commission, Fixed Income Market Structure Advisory Committee, Preliminary Recommendation Regarding Defining “Electronic Trading” for Regulatory Purposes (October 2020) at FN 2, available at: <https://www.sec.gov/spotlight/fixed-income-advisory-committee/fimsac-preliminary-recommendation-re-definition-of-electronic-trading.pdf> and Remarks at U.S. Treasury Market Conference, Commissioner Elad L. Roisman (Sept. 29, 2020), available at: <https://www.sec.gov/news/speech/roisman-us-treasury-conference-2020-09-29>.

Treasury trading venues (accounting for trillions of dollars weekly).⁴ As a result, the Proposal’s failure to clearly capture multilateral RFQ trading venues creates an unlevel playing field among trading venues and is inconsistent with the objective of ensuring that multilateral trading venues operating in the U.S. Treasury market are subject to appropriate regulatory oversight.

We urge the Commission to address this significant gap in connection with finalizing the Proposal by clarifying the scope of, or amending, Rule 3b-16 to include multilateral RFQ trading venues.⁵ It is important to note that multilateral RFQ trading venues are formally registered in other asset classes and jurisdictions, including as swap execution facilities with the Commodity Futures Trading Commission⁶ and multilateral trading facilities in the UK and EU.⁷ It is also expected that multilateral RFQ trading venues will be required to formally register with the Commission as security-based swap execution facilities.⁸ Therefore, there are well-established precedents for the Commission to reference in the context of appropriately delineating the scope of multilateral trading venues subject to a registration requirement, and, in many cases, the relevant platform operators are already registered in other asset classes and jurisdictions. As such, we recommend that the Commission revise the Proposal to capture multilateral RFQ trading venues, thereby ensuring that all segments of the U.S. Treasury market benefit from increased transparency and greater resiliency.

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⁴ “The Bond-Trading Revolution Is Real This Time,” Feb. 10, 2021, available at: <https://www.bloombergquint.com/gadfly/the-bond-trading-revolution-is-real-this-time>. See also <https://www.finra.org/filing-reporting/trace/data/trace-treasury-aggregates>.

⁵ In response to the concept release, we also support the same approach being taken for other fixed income markets regulated by the Commission.

⁶ For example, <https://www.tradeweb.com/our-markets/market-regulation/sef/>. A SEF is defined as “a trading system or platform in which multiple participants have the ability to execute or trade swaps by accepting bids and offers made by multiple participants in the facility or system, through any means of interstate commerce, including any trading facility that [f]acilitates the execution of swaps between persons.” CFTC Reg §1.3.

⁷ For example, <https://www.bloomberg.com/professional/product/multilateral-trading-facility/>. An MTF is defined as “a multilateral system, operated by an investment firm or a market operator, which brings together multiple third-party buying and selling interests in financial instruments – in the system and in accordance with non-discretionary rules – in a way that results in a contract in accordance with Title II of this Directive.” MiFID II Article 4(1)(22).

⁸ See 76 Fed. Reg. 10948 at 10953 (“In the Commission’s view, a system or platform that affords a quote requesting participant the ability to send an RFQ to all participants, but also permits the quote requesting participant to choose to send an RFQ to fewer participants, would satisfy the statutory definition because multiple participants would have the ability to execute or trade SB swaps by accepting bids or offers made by multiple participants.”), available at: <https://www.sec.gov/rules/proposed/2011/34-63825fr.pdf>.



We appreciate the opportunity to provide comments on the Proposal. Please feel free to call the undersigned at [REDACTED] with any questions regarding these comments.

Respectfully,

/s/ Stephen John Berger

Managing Director

Global Head of Government & Regulatory Policy