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August 15, 2016

Via Electronic Mail

Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Re: Notice of Filing of Proposed Rule Change Relating to the Reporting of U.S. Treasury Securities to the Trade Reporting and Compliance Engine; SR-FINRA-2016-027

Dear Mr. Fields:

KCG Holdings, Inc. ("KCG")¹ appreciates the opportunity to respond to the Securities and Exchange Commission ("SEC" or "Commission") and comment on the filing by Financial Industry Regulatory Authority ("FINRA") of the above referenced proposed rule change (the "Proposal"). FINRA's Proposal would expand its Trade Reporting and Compliance Engine ("TRACE") reporting rules to require its members to report most secondary market transactions in marketable U.S. Treasury securities ("Treasuries").²

KCG is an active Treasury market participant, primarily as a market maker in on-the-run securities on electronic central limit order book platforms and more recently as a

¹ KCG is a leading independent securities firm offering investors a range of services designed to address trading needs across asset classes, product types and time zones. As an electronic market maker, KCG commits its capital to facilitate trades by buyers and sellers on exchanges, ATSs, and directly with clients. We combine advanced technology with exceptional client service to deliver greater liquidity, lower transaction costs, improve pricing, and provide execution choices. KCG has multiple access points to trade global equities, fixed income, currencies and commodities through voice or automated execution.

² See Notice of Filing of a Proposed Rule Change Relating to the Reporting of U.S. Treasury Securities to the Trade Reporting and Compliance Engine ("Notice") (July 19, 2016), available at <https://www.sec.gov/rules/sro/finra/2016/34-78359.pdf>.



bilateral provider of liquidity in the wholesale space. We have a strong interest in ensuring investors' confidence in the integrity, liquidity and efficiency of the Treasury market and we consistently advocate for improvements to Treasury market structure.³

KCG fully supports the goal set forth in the Proposal of making U.S. Treasury transactional data more readily available to regulators. We believe, however, the Proposal should go further and provide for real-time reporting and public dissemination of the collected data. Also, regulators should specify their plan for collecting similar U.S. Treasury transactional data from non-FINRA members not covered by the Proposal.

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I. FINRA's Proposal

FINRA's Proposal would expand the TRACE reporting rules to require FINRA members to report most secondary market transactions in marketable U.S. Treasury securities. FINRA members would need to report on the same day as the transaction on an end-of-day basis. Reported transactional information would be collected by FINRA and made available to regulators but would not be disseminated to the public. Because TRACE reporting rules only apply to FINRA members, transactions by non-FINRA members would not be collected.

II. Discussion

A Well-Functioning U.S. Treasury Market is Essential. The U.S. Treasury market is a crucial component of our financial market infrastructure as trading in the Treasury market impacts many other markets and economies and it is widely considered the most important market in the world for price discovery.

³ See Remarks by KCG CEO Daniel Coleman, Market Structure: The Good, the Bad and the Ugly!, delivered at the SIFMA Market Structure Conference (April 12, 2016). *See also* KCG Comment Letter to the Treasury Department in response to its Request for Information about Treasury market structure (April 28, 2016) ("KCG RFI Comment Letter").



Consequently, it is essential that regulators and market participants ensure that the U.S. Treasury market operates as a well-functioning, stable and efficient market.⁴

KCG supports the Proposal as regulators clearly need access to Treasury market data. KCG fully supports increasing official sector access to comprehensive data related to trading in the Treasury cash market. Currently, there is no official database or repository collecting trading activity in the Treasury market and regulators do not receive regular transaction reports. The extreme volatility experienced in the U.S. Treasury market on October 15, 2014 – which remains largely unexplained - underscored several concerns about Treasury market structure, including the need to provide regulators with ready access to comprehensive transactional data. In the wake of the events of October 15th, regulators were forced to request transaction data from market participants. We agree with the determination by the Treasury Department and other regulators that the need for comprehensive regulatory access to data “is clear”⁵ and therefore we support the transaction reporting obligations set forth in FINRA’s Proposal.

As noted by FINRA, the primary benefit stemming from the proposed rule change will be improving regulators’ ability to monitor the Treasury market and its participants.⁶ The collected data will improve the official sectors’ surveillance capability, including surveillances designed to detect disruptive trading practices or risks to market stability. It will also assist regulators when they attempt to analyze specific market events or trends and provide the official sector with data to better evaluate the potential impact of their policy decisions.

The Proposal should be expanded. While the Proposal will provide regulators with much needed transactional data, it will not move the needle with respect to

⁴ See KCG RFI Comment Letter.

⁵ See Joint Staff Report: The U.S. Treasury Market on October 15, 2014 (July 13, 2015) published by the staffs of the U.S. Department of the Treasury, Board of Governors of the Federal Reserve System, Federal Reserve Bank of New York, U.S. Securities and Exchange Commission, U.S. Commodity Futures Trading Commission at 3931 (“Joint Report”), available at https://www.treasury.gov/press-center/press-releases/Documents/Joint_Staff_Report_Treasury_10-15-2015.pdf.

⁶ See Notice at 48471.



increasing price transparency (or competition) within the Treasury market. **In our view, the key to making meaningful improvements to Treasury market structure is not only making data available to regulators but also enhancing transparency for all Treasury market participants. We therefore believe the Proposal should be amended to require real-time reporting and immediate public dissemination of collected data.**

Trading in the Treasury cash market is essentially bifurcated between two segments, the interdealer segment and the dealer-to-client segment. Liquidity and competition among participants is generally higher in the interdealer segment as compared to the dealer-to-client segment, due in large part to greater levels of price transparency. We believe that real-time public dissemination of trading activity across the Treasury market will improve price discovery for all market participants, attract new and more diverse entrants to the market by reducing information asymmetry, and ultimately bolster investor confidence. In addition, the price transparency that comes with real-time public dissemination of secondary market trading will enhance best execution analysis by investors and market participants and facilitate customer choice by enabling them to make more informed decisions regarding the market participants and venues with which they trade.

Below are our recommendations for amending the Proposal to enhance price transparency.

- **The timeframe for reporting Treasury transactions should be immediate and the information should be publicly disseminated.** Per the Proposal, FINRA members would be required to report transactions in Treasury Securities to FINRA on an end-of-day basis. FINRA will not publicly disseminate collected transaction information. Notably, the Proposal's same-day reporting timeframe differs from the more immediate TRACE reporting deadline for other instruments as does the non-dissemination element. We believe core Treasury transaction data (*i.e.*, price, time and size of execution) should be reported in real-time and publicly disseminated.



- **The obligation to report Treasury transactions should be universal to ensure the collection of comprehensive data.** FINRA's Proposal, which stems directly from a joint SEC/Treasury Department directive to FINRA to consider requiring FINRA member broker-dealers report Treasury market transactions to a centralized repository,⁷ will not (and cannot) require reporting to FINRA by non-FINRA members. While FINRA members participate in the majority of Treasury market transactions, a significant portion of transactions will nonetheless be missing from the collected data and thus regulators will receive an incomplete view of Treasury market activity. As noted by regulators, it is important for the official sector to have access to timely and *comprehensive* Treasury data. To that end, Treasury has noted that it will "continue working with other agencies and authorities to develop a plan for collecting similar data from institutions who actively trade U.S. Treasury securities but are not FINRA members."⁸ Regulators should provide specifics about their plan to collect data from non-FINRA members and implementation of the plan should be prioritized.

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⁷ See Press Release, U.S Department of the Treasury, Statement on Trade Reporting in the U.S. Treasury Market (May 16, 2016) ("Press Release"), available at <https://www.sec.gov/news/pressrelease/2016-90.html>. See also Notice at 48466.

⁸ See Press Release and Notice at 48466.



KCG greatly appreciates the opportunity to comment on the Proposal and would be pleased to discuss these comments in greater detail. If you have any questions, please do not hesitate to contact John A. McCarthy (at [REDACTED] or [REDACTED]) or Tom Eidt (at [REDACTED] or [REDACTED]).

Sincerely,



John A. McCarthy
General Counsel