



DIVISION OF
TRADING AND MARKETS

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

August 19, 2016

Robert W. Cook
Chief Executive Officer
FINRA
1735 K St., NW
Washington, DC 20006

Re: Regulation of U.S. Treasury Securities

Dear Mr. Cook:

As you know, the Commission, U.S. Department of the Treasury, Board of Governors of the Federal Reserve System, Federal Reserve Bank of New York, and U.S. Commodity Futures Trading Commission recently issued a joint statement highlighting significant actions they each have taken over the last year to promote understanding, transparency, risk management, and coordination with respect to the U.S. Treasury securities market (“Joint Staff Statement”).¹

As reflected in the Joint Staff Statement, the Commission and our fellow regulators continue to work collaboratively to review and evaluate other potential changes to the regulatory framework for the government securities market and its participants. Given its unique position in the securities markets, FINRA is well-situated to contribute to both that ongoing review and evaluation, and to the broader effort of promoting the integrity of the U.S. Treasury securities market. I commend FINRA for taking important steps toward such effort, including the recently filed proposed rule change to expand the Trade Reporting and Compliance Engine reporting rules to include most secondary market transactions in marketable U.S. Treasury securities² and the Commission’s recent approval of a proposed rule change by FINRA to apply certain of its rules governing mark-ups and commissions to transactions in exempted securities that are government securities.³

¹ Statement Regarding Progress on the Review of the U.S. Treasury Market Structure since the July 2015 Joint Staff Report, <https://www.sec.gov/news/pressrelease/2016-155.html> (Aug. 2, 2016).

² Notice of Filing of a Proposed Rule Change Relating to the Reporting of U.S. Treasury Securities to the Trade Reporting and Compliance Engine, Release No. 34-78359 (July 19, 2016), 81 FR 48465 (July 25, 2016).

³ Order Approving a Proposed Rule Change to Amend FINRA Rule 0150 to Apply FINRA Rule 2121 and its Supplementary Material .01 and .02 to Transactions in Exempted Securities That Are Government Securities, Release No. 34-76639 (Dec. 14, 2015), 80 FR 79112 (Dec. 18, 2015). See also Notice of Filing of a Proposed Rule Change Relating to FINRA Rule 2232 (Customer Confirmations) to Require Members to Disclose Additional Pricing Information on Retail Customer Confirmations Relating to Transaction in Fixed Income Securities, Release No. 34-78573 (August 15, 2016), 81 FR 55500 (August 19, 2016).

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As staff of the Division of Trading and Markets ("Division") continues its review of the regulatory framework for the U.S. Treasury securities market, one area of focus is the identification of potential gaps in that regulatory framework, especially areas where regulations exist but exclude or otherwise do not apply to U.S. Treasury or other government securities. Accordingly, and after extensive consultation with our colleagues in the U.S. Department of the Treasury, Division staff requests FINRA to undertake a comprehensive review of its rulebook to identify existing FINRA rules that exclude or may otherwise not apply to U.S. Treasury securities (or government securities more generally), or for which the applicability of the rule to U.S. Treasury securities requires clarification, and to assess the continuing validity for such exclusions. Such rules may include FINRA Rule 2090 ("Know Your Customer"), Rule 2242 ("Debt Research Analysts and Debt Research Reports"), Rule 5240 ("Anti-Intimidation/Coordination"), Rule 5270 ("Front Running of Block Transactions"), Rule 5320 ("Prohibition Against Trading Ahead of Customer Orders"), Rule 5280 ("Trading Ahead of Research Reports"), and NASD Rule 1032(f) ("Categories of Representative Registration: Securities Trader"). We request that you conduct this review as expeditiously as possible and keep Division staff updated with the details of your findings, including providing a preliminary schedule of how and when FINRA intends to address any identified gaps, by October 7, 2016.

As noted in the Joint Staff Statement, "[a] well-functioning and resilient Treasury market is critical to the financial system, and serves policymakers and market participants alike." There has been a tremendous amount of effort and progress to date toward ensuring a well-functioning and resilient U.S. Treasury securities market, and I believe this effort must continue expeditiously. I look forward to continuing to engage and work with you on this critical endeavor.

Sincerely,



Stephen Luparello
Director, Division of Trading and Markets

cc: Daleep Singh, Acting Assistant Secretary, Financial Markets, U.S. Department of the Treasury
James Clark, Deputy Assistant Secretary, Federal Finance, U.S. Department of the Treasury