March 1, 2021

Vanessa A. Countryman
Secretary, Securities and Exchange Commission
100 F St NE
Washington, DC 20549-1090

Re: Comments on Regulation ATS for ATSs that Trade U.S. Government Securities, NMS Stock, and Other Securities; Regulation SCI for ATSs that Trade U.S. Treasury Securities and Agency Securities; and Electronic Corporate Bond and Municipal Securities Market (File No. S7-12-20)

Secretary Countryman:

The Americans for Financial Reform Education Fund (AFREF) appreciates the opportunity to comment on the above referenced proposed rule ("the Proposal") by the Securities and Exchange Commission (the "SEC" or the "Commission"), which would update the Reg ATS and Reg SCI rules to enhance disclosure and transparency in the U.S. government bond and agency mortgage bond markets. Members of the AFR Education Fund coalition include consumer, civil rights, investor, retiree, community, labor, faith based, and business groups.[1]

Issues in the Treasury market, the market for agency mortgage-backed securities (MBS), and the Treasury and MBS repo markets have contributed to multiple recent financial market disruptions. These include the flash rally of October 2014, the sharp and unforeseen spike in repo rates in September 2019, and the recent Covid-related market disruption of March 2020. Because markets for U.S. government credit are so critical to the financial system, these disruptions triggered large-scale monetary interventions by the Federal Reserve.

Critical intermediaries in these markets are effectively unregulated as trading venues or dealers. This hampers the availability of information concerning trading in these critical markets. It also means that oversight of the core "plumbing" of these critical markets, which determines their resiliency, is lacking.

One reason for the lack of regulation in these markets is the exemption of alternative trading systems (ATS) that trade in government securities from the coverage of the SEC's Reg ATS, which sets out formal requirements for operation of an ATS. Another issue is the fact that Reg SCI, which governs systems compliance and integrity at key elements of market infrastructure such as trading venues and clearinghouses, does not apply to large-scale trading intermediaries in government securities, in part because of the Reg ATS exemption.

[1] A list of coalition members is available at: https://ourfinancialsecurity.org/about/coalition-members/

This Proposal makes a long overdue extension of these important regulations to trading intermediaries in government securities. We strongly support the extension laid out in the Proposal. In addition to improving the integrity and transparency of these markets, the regulatory extension that the Commission is proposing will help to discourage some of the deceptive and manipulative trading practices that still occur in some of the most active, liquid markets in the world. The government securities markets are more systemically significant than equity markets which Reg ATS and SCI already apply to fully, so exempting them was never reasonable. However, as we detail at the end of this letter, this Proposal is only a first step. Significant further work is needed to enhance the stability, transparency, and competitiveness of these markets.

By extension of Regulation ATS, we also recommend a 3% market share threshold for complying with the Fair Access Rule and 5% for Regulation SCI. This will help to ensure that investors are treated fairly, competition is enhanced, and automated systems are adequately secure and protected from external vulnerabilities.

There is no reason why the US government securities markets or agency MBS markets should be exempt from additional reporting requirements, including those currently in place for Regulation ATS. All U.S. Treasuries and agency MBS should be added to the set of securities included in the Exchange Act Rule 3a1-1(b)(3) as the Commission proposes.

The Commission has noted that Regulation ATS was introduced before the advent of electronic secondary market trading, suggesting it is ripe for modernization.

Several ATS now dominate the trading of U.S. Treasury and agency MBS. CME BrokerTec, Tradeweb, Bloomberg, Dealerweb, Fenics, and MaketAxess made up 37.3%, 22%, 21.8% 8.5%, 5.7%, and 4.6% of total electronic Treasuries trading in 2020.[2] Ensuring that Reg ATS and SCI apply these entities will provide for additional data and create more transparency into the trading around those critical markets.

The need for greater transparency and fairness in these markets is also underlined by the fact that large broker-dealers such as J.P. Morgan have recently been found guilty of deceptive Treasury trading practices.[3]

The extension of Reg ATS to Treasuries has also become especially important as the role of principal trading firms (PTFs) has become ever more significant in Treasury markets and related repo markets. The growing role of PTFs means that much trading activity is not coming from long-term investors but rather prop trading firms who may trade in-and-out of their positions several times in a day and are likely to react sharply to market volatility. By the Commission's own estimates, such trading makes up 55% of Government ATS trading activity. \

[2] Chappatta, Brian. Bloomberg Opinion. The Bond-Trading Revolution Is Real This Time. Feb 9, 2021. https://www.bloomberg.com/opinion/articles/2021-02-09/the-bond-trading-revolution-is-real-this-time?sref=K2fn0sqp

[3] Securities and Exchange Commission. Sep 29, 2020. J.P. Morgan Securities Admits to Manipulative Trading in U.S. Treasuries. https://www.sec.gov/news/press-release/2020-233

Additional Form ATS-G reporting requirements will help investors

The proposal to require Government ATS to provide additional quarterly disclosures via Form ATS-Gs will help investors. This will be useful across a range of areas by illuminating:

- Conflicts-of-interest between the ATS and a broker-dealer operator/affiliate
- Any additional liquidity arrangements an ATS has with its broker-dealer operator or customer
- Order types
- Use of market data offered
- Fee disclosures

Forms ATS-G and ATS-N should be amended to require ATS subscriber information

Forms ATS-G and ATS-N should also be amended to require the ATS to furnish information on the type of market investors participating in the Government Securities ATS whether retail, institutional, or broker-dealers.

This requirement should be extended to Form ATS-N in the equity markets. It will be even more practical to implement in equity markets where retail investors have a significantly larger footprint and where direct and indirect order flow can be better tracked.

The Commission should use a 3% market share threshold in applying the Fair Access Rule

The extension of the Fair Access Rule to require ATS trading certain volumes of government bond and agency MBS to provide equal access to their platforms is necessary.

Under the current rules, any ATS that meet certain average daily volumes during four of the prior six months must:

- Provide written standards to become a customer on its platform
- Apply these written standards in a non-discriminatory manner
- Maintain records of how standards were applied.

The bilateral fixed-income market is a heavily relationship driven business, one that sometimes leads to retaliatory behavior by dealers.[4] The Fair Access rule will better ensure that broker-dealers and their affiliates cannot engage in such practices, and thus improve access and competition for the largest, most systemically important markets..

Of the various scenarios the Commission presented, we would support the 3% of daily market volume threshold for application of the Fair Access Rule, as opposed to the baseline 5%. Even a 3% threshold would still only subject four ATS in U.S. Treasuries and one in agency MBS to the Fair Access Rule. All these ATS are leading exchanges whose customers deserve fair access.

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[4] Bakewell, Sally and Doherty, Katherine. Bloomberg News. Citi Resigns Role on Brigade CLO Deal Amid Escalating Loan Feud. Aug 18, 2020. https://www.bloomberg.com/news/articles/2020-08-18/citi-resigns-role-on-brigade-clo-deal-amid-escalating-loan-feud?sref=K2fn0sqp

Government Securities ATS with 5% of market share should be subject to Regulation SCI

The threshold for the proposed Regulation SCI requirements which would expand the definition of "SCI alternative trading system" to include Government Securities ATS should be set at Commission's proposed 5% market share.

The Commission notes that only one ATS would be subject to Reg SCI for US Treasuries and agency MBS at this threshold; none the less we agree that the threshold represents a reasonable one for the systemic integrity issues targeted by Regulation SCI.

Further Work is Needed

While this Proposal is a useful first step, further work is needed to reform the Treasury markets, including limitations on excessively leveraged trading strategies used by market participants. Some of this work requires cooperation with other regulators through the FSOC. These steps fall outside the issues raised by this Proposal.

However, Commissioner Elad Roisman has also pointed out that even if this Proposal is adopted, the ATS/SCI/dealer regulation framework will still not extend to all significant intermediaries in the government securities markets.[5] We support extension of the ATS framework to venues that use request-for-quote or streaming quote protocols, and a requirement for dealer registration, with related capital requirements, for Principal Trading Firms that are significant players in the Treasury market.

We would also support well designed market maker requirements for large-scale dealers in Treasury markets. Such requirements could enhance PTF liquidity support in stressed markets. Given that these dealers have been repeatedly assisted by emergency liquidity from the Federal government, it is appropriate to require them to keep their own resources in the markets as well. To do otherwise would be to allow PTFs to benefit from the upside when markets were stable but withdraw liquidity from more volatile markets when they risked losses, while counting on a government backstop to support the market.

These issues were highlighted by Commissioner Roisman in his remarks at the 2020 U.S. Treasury Market Structure conference.[6]

We also support stronger regulation of fixed income electronic trading intermediaries more generally, including corporate bonds and municipal bonds. We were glad to see the Commission follow up on past recommendations from the Fixed Income Market Structure Advisory Committee (FIMSAC) by including a Concept Release on Electronic Corporate Bond and Municipal Securities Markets in this Proposal. We currently have no specific comment on the Concept Release beyond our general support for the Commission's initiative in this area, but we will consider with interest the industry submissions in response to it.

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[5] Roisman, Elad, "Remarks at 2020 Treasury Market Structure Conference", September 29, 2020, available at https://www.sec.gov/news/speech/roisman-us-treasury-conference-2020-09-29

[6] Ibid.

In sum, we strongly support the steps taken in this Proposal but also urge the Commission to continue its work in strengthening the stability, resiliency, transparency, and fairness of fixed income markets.

We appreciate your consideration of this important matter. For further discussion, please contact Andrew Park at andrew@ourfinancialsecurity.org or Marcus Stanley at marcus@ourfinancialsecurity.org

Sincerely,

Americans for Financial Reform Education Fund