

# TRACE "Unlocks" the Treasury Market for the Official Sector. Everyone Else Gets a Peek Through the Keyhole

October 3, 2018

On Friday the Federal Reserve posted [a blog](#) in which it gave the public a fresh glimpse into what the official sector is seeing in the "TRACE for Treasuries" data. In other markets, like equities, market data is so important that there is in fact [a market for market data](#), or that the term "market data" itself is being broadened to include all kinds of "[alternative data](#)." So it may seem odd that a government body could cause a stir with a blog post about market data - but the U.S. Treasury market isn't just any market.

 Source: Liberty Street Economics

The Fed takes a pretty high-level approach and there isn't really too much that will not be familiar to market participants familiar with the market structure, certainly not to customers of Greenwich Associates. They do put more precise numbers to what is generally known however: the market is bi-furcated between an inter-dealer market and a dealer to customer market. The Fed does add a new wrinkle by further sub-dividing the inter-dealer market into two segments: one intermediated by inter-dealer brokers and one in which they trade directly with one another. This is odd, considering that direct inter-dealer trading is an extremely small segment of the market.

It might be because this is something the Fed can measure with certainty. Only FINRA members are required to report their trades to TRACE which means that most of the buy side and the PTFs don't report. So the Fed has to reconstruct those aspects of the market through estimates derived from how the dealers report.

## The Persistence of Voice

There are some interesting things in the report. First is that they estimate that HFT firms are now 62% of the volume in the electronic IDB markets. This is not a surprise. What is a surprise is that they also estimate that only 70% of the IDB market is electronic, meaning that 30% is voice/IM. Considering that this market is \$269 billion a day, that \$80 billion in voice brokered U.S. Treasury securities between dealers, or just over twice what the dealers trade directly with each other. Is it possible that in the rush to think about the effects on the market of PTFs in the IDB platforms, market structure observers have overlooked the fact that to a large extent the voice brokers have remained relevant?

It may well be. The level of voice trading in the inter-dealer market in Treasuries is just about what it is in FX. Perhaps the market structures are similar, with mid-to small size trades going through the platforms, but with the very large trades negotiated via voice. On the other hand, there may be a more prosaic reason for it,

while on the run Treasuries are extremely liquid, off the runs are not. Off the runs are more like corporate bonds in that they are generally worked on an agency basis and it can take more time to find counterparties meaning voice trading may have an advantage. This is the market that OpenDoor trading has been looking to crack.

 Source: Liberty Street Economics

Another thing notable is the recognition that direct streams from PTFs to their clients are now a significant aspect of the market structure. Indeed, aggregated direct streams either from PTFs to the sell side, from the sell side to the buy side, and perhaps even from the PTFs direct to the buy side may be an increasingly popular market structure similar to the disclosed streaming prices via multi-dealer platforms that have arisen in the foreign exchange market. Liquidity Edge has been a pioneer in this “many to many” type market structure and it may get an additional boost from the efforts of FICC to promote central clearing among both the buy side and the PTF community.

### Who Watches the Watchers?

And then there is the elephant in the room: why is it that only the “official sector” has access to this information? This question has been in the air [since before the TRACE](#) decision was made, and came out in the U.S. Treasury market structure RFI issued in 2016. Generally, the argument broke down between the dealers and the PTFs. The dealers argued in their RFI responses that public dissemination would lead to information leakage which would be ultimately damaging to market integrity. The PTFs argued the opposite, pointing to former SEC Commissioner Piwowar’s [paper](#) on the effects of TRACE on the corporate bond market. Initially it seemed as though public dissemination of market data would win the day, but many of its advocates left government in the wake of the 2016 election, and in the end [TRACE remained the preserve of the official sector](#). Interestingly in corporate bonds, the FIMSAC has recently decided to launch [a pilot to expand transparency](#) into corporate bond trading, which is publicly disclosed and MUCH more illiquid than U.S. Treasuries.

### You can Only Enforce What you can Observe

Whatever side you take in the transparency/information leakage question you’re on, there’s another aspect to this that I think is interesting. At the very bottom of the issues within the Treasury market is the fact that when the securities regulatory regime in the U.S. was created in the ’33 and ’34 Acts, Congress exempted Treasury securities from them. There wasn’t even a rule making authority for Treasuries until the Government Securities Act of 1986 empowered the Treasury department to govern it. As a result, many of the kinds of market practice standards that are the norm in other markets don’t exist in U.S. Treasuries.

Just have a look at the FINRA Rulebook. U.S. Treasuries are “exempt securities” but there is a rule in the rulebook which described the rules which DO apply to them: [Rule 0150](#). Of the thousands of FINRA rules, only 46 apply to U.S. Treasuries. This is an increase from 39 at the time of the U.S. Treasury RFI when it was pointed out in comment letters that the market was exempt from many rules governing market practice standards, for example Treasury market participants are not required for adhere to [Rule 5320, the prohibition](#)

[on front running customer orders](#): that's right folks, front running is technically legal in Treasuries.

But even the rules which must be followed by FINRA members are impossible to enforce in the absence of a record of trades effected in the market. Take for example, [Rule 5310](#) which governs best execution and prohibits inter-positioning. Of course, in the absence of data on market transactions, inter-positioning is undetectable. In the corporate bond market, TRACE data has been invaluable for the buy side to police the market conduct of their dealers. For example, if a dealer tells a client that they put the trade up on a principal basis, and the customer notices a number of other trades around the same time, he might surmise that this was actually done on an agency basis, and can take the dealer to task for leaking information into the market about the trade. So the Fed is to be applauded for giving the public a window into the TRACE data, but there is much more to be done in this regard.

---

[www.greenwich.com](http://www.greenwich.com) | [ContactUs@greenwich.com](mailto:ContactUs@greenwich.com)

Coalition Greenwich, a division of CRISIL, an S&P Global Company, is a leading global provider of strategic benchmarking, analytics and insights to the financial services industry.

We specialize in providing unique, high-value and actionable information to help our clients improve their business performance.

Our suite of analytics and insights encompass all key performance metrics and drivers: market share, revenue performance, client relationship share and quality, operational excellence, return on equity, behavioral drivers, and industry evolution.

## About CRISIL

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. It is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics, and data to the capital and commodity markets worldwide.

CRISIL is India's foremost provider of ratings, data, research, analytics, and solutions with a strong record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights and efficient solutions to over 100,000 customers through businesses that operate from India, the U.S., the U.K., Argentina, Poland, China, Hong Kong, and Singapore.

For more information, visit [www.crisil.com](http://www.crisil.com)

## Disclaimer and Copyright

This Document is prepared by Crisil Coalition Greenwich, which is a part of Crisil Ltd, a company of S&P Global. All rights reserved. This Document may contain analysis of commercial data relating to revenues, productivity and headcount of financial services organisations (together with any other commercial information set out in the Document). The Document may also include statements, estimates and projections

with respect to the anticipated future performance of certain companies and as to the market for those companies' products and services.

The Document does not constitute (or purport to constitute) an accurate or complete representation of past or future activities of the businesses or companies considered in it but rather is designed to only highlight the trends. This Document is not (and does not purport to be) a comprehensive Document on the financial state of any business or company. The Document represents the views of Crisil Coalition Greenwich as on the date of the Document and Crisil Coalition Greenwich has no obligation to update or change it in the light of new or additional information or changed circumstances after submission of the Document.

This Document is not (and does not purport to be) a credit assessment or investment advice and should not form basis of any lending, investment or credit decision. This Document does not constitute nor form part of an offer or invitation to subscribe for, underwrite or purchase securities in any company. Nor should this Document, or any part of it, form the basis to be relied upon in any way in connection with any contract relating to any securities. The Document is not an investment analysis or research and is not subject to regulatory or legal obligations on the production of, or content of, investment analysis or research.

The data contained in the Document is based upon a particular bank's scope, which reflects a bank's data submission, business structure, and sales revenue Reporting methodology. As a result, any data contained in the Document may not be directly comparable to data presented to another bank. For franchise benchmarking, Crisil Coalition Greenwich has implemented equal ranking logic on aggregate results i.e., when sales revenues are within 5% of at least one competitor ahead, a tie is shown and designated by = (where actual ranks are shown). Entity level data has no equal ranking logic implemented and therefore, on occasion, the differences between rank bands can be very close mathematically.

The data in this Document may reflect the views reported to Crisil Coalition Greenwich by the research participants. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Crisil Coalition Greenwich compiles the data received, conducts statistical analysis and reviews for presentation purposes to produce the final results.

THE DOCUMENT IS COMPILED FROM SOURCES CRISIL COALITION GREENWICH BELIEVES TO BE RELIABLE. CRISIL COALITION GREENWICH DISCLAIMS ALL REPRESENTATIONS OR WARRANTIES, EXPRESSED OR IMPLIED, WITH RESPECT TO THIS DOCUMENT, INCLUDING AS TO THE VALIDITY, ACCURACY, REASONABLENESS OR COMPLETENESS OF THE INFORMATION, STATEMENTS, ASSESSMENTS, ESTIMATES AND PROJECTIONS, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT. CRISIL COALITION GREENWICH ACCEPTS NO LIABILITY WHATSOEVER FOR ANY DIRECT, INDIRECT OR CONSEQUENTIAL LOSS OR DAMAGE OF ANY KIND ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT.

Crisil Coalition Greenwich is a part of Crisil Ltd., an S&P Global company. ©2025 Crisil Ltd. All rights reserved.