

April 22, 2016

**Via Electronic Delivery**

David R. Pearl  
Office of the Executive Secretary  
U.S. Department of Treasury  
1500 Pennsylvania Avenue, NW  
Washington, DC 20220

***Re: Notice Seeking Public Comment on the Evolution of the Treasury Market Structure, Docket No. TREAS-DO-2015-0013***

Dear Mr. Pearl:

HTG Capital Partners LLC (“HTG”) appreciates the opportunity to comment on the above-referenced notice and request for information (“RFI”). HTG is a proprietary trading firm headquartered in Chicago, Illinois. HTG is a member of the Chicago Mercantile Exchange, Chicago Board of Trade and regularly trades U.S. Treasury instruments for its own account.

We applaud the U.S. Department of Treasury (“Department”) for seeking public comment regarding the evolution of the U.S. Treasury marketplace. We believe that it is critical to the efficient operation of such marketplace that the Department obtain views from as many market participants as possible.

We will address question 1.4 in the RFI, which states:

**Looking forward, do you anticipate significant changes in the structure of the U.S. Treasury market absent further regulatory changes? What would the key benefits and/or risks of these changes in market structure? What key factors are likely to drive these changes? What changes are you planning to your firm’s investment and trading policies, strategies and practices?**

We are greatly concerned by recent media reports that other federal agencies may be considering drastically reducing the amount of leverage that a broker-dealer and other participants may employ in connection with U.S. Treasuries. Specifically, media outlets have recently reported that the Securities and Exchange Commission (“SEC”) has held meetings to consider a leverage limit for broker-dealers that could potentially raise capital requirements for certain U.S. Treasury spread positions to 850 times the current capital requirement.<sup>1</sup>

Should such a proposal be enacted, it is our view that the U.S. government securities marketplace would be harmed. The U.S. government securities markets and the current leverage framework for trading in those markets was not a contributor to the financial crisis, is not a problem today, and will not be a problem if left as is. In fact, the marketplace may continue to be improved by

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<sup>1</sup>“*SEC Leverage Ratio Meetings Alarm Broker-Dealers* “; <http://www.risk.net/risk-magazine/news/2453538/sec-leverage-ratio-discussions-alarm-broker-dealers>.

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the use of leverage. As an example, Chicago Board of Trade U.S. Treasury futures and options products employ leverage with margin reductions applied to **risk reducing** spread positions. The SEC's approach as reported in the media decreases leverage without regard for the risk-offsetting nature of spread positions and thus **increases** risk to the U.S. government securities market. The net effect of such a proposal would be to drive costs to the U.S. taxpayer higher. Large numbers of sophisticated market participants could no longer afford to participate. The SEC's proposal fundamentally misses the point that leverage is a tool. Like any other tool, leverage can be abused or misused, but is not inherently evil. Such ill-considered proposals, if enacted, represent the single greatest threat to the stability of the U.S. Treasury marketplace.

We urge the Department to use all of its considerable powers to promote stability in the U.S. government securities marketplace by coordinating with the SEC and any other federal agencies to ensure a complete understanding of the potential harm a proposal arbitrarily limiting leverage would pose to the marketplace and the overall economy. It is our view that recognizing the risk reducing nature of spread transactions along the yield curve better promotes stability in these markets.

Lastly, we wholeheartedly support and endorse the thoughtful and well-considered comment letter submitted by the FIA Principal Traders Group. We thank you again for the opportunity to comment and please do not hesitate to contact the undersigned at (312) 327-4000 if you have questions, or if we can provide further information.

Respectfully,

/s/

Christopher K. Hehmeyer  
Chairman & Chief Executive Officer  
HTG CAPITAL PARTNERS LLC