+1 646 630 7420 • contact@liquidityedge.trade • www.liquidityedge.trade
1370 Broadway, Suite 1050, New York, NY 10018

Office of the Under Secretary for Domestic Finance
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

April 22, 2016

Dears Sirs

Re: Notice Seeking Public Comment on the Evolution of the U.S. Treasury Market Structure Docket ID: TREAS-DO-2015-0013

LiquidityEdge welcomes the opportunity to comment on the evolution of the U.S Treasury Market Structure. Our comments are limited to our experiences in designing, developing and launching one of the newest US Treasury securities trading venues. In launching a new venue that aims to meet the evolving needs of US Treasury market participants we have observed some key trends and identified significant issues with the current structure that we'd like to highlight.

Liquidity Provision

Liquidity provision in the US Treasury market and specifically, on the core Inter-Dealer Broker (IDB) venues, has evolved over time with non-bank participants (Professional Trading Firms or PTFs) now accounting for a significant percentage share of order entry and volume traded. As bank dealers, driven by balance sheet constraints, have pulled back from the market, these non-bank, non-traditional liquidity providers have emerged and proven extremely adept at filling the void created on these main IDB venues.

The benefits of their participation are worth noting. These technology 'savvy' and agile firms have driven important market efficiencies including policing market dislocations and re-allocating risk between highly correlated assets at high speeds with ultra-efficiency. This is evidenced in the tandem market moves between sectors and related asset classes during the unprecedented volatility experienced in the market on October 15, 2014. Moreover, there is ample evidence that these institutions have aided in tightening bid-ask spreads and lowering the overall cost of trading.

However, as technology continues to advance and speed remains a key driver of success, it has become evident that the ability to monetize trading in an anonymous Central Limit Order Book (CLOB) is growing increasingly challenging. In order to address this, PTFs

must now seek new ways to reach counter-parties beyond traditional anonymous trading in a CLOB. Nevertheless, even if successful in doing so, some of the deepest and most competitive liquidity generated by PTFs is unavailable to a large number of market participants, specifically, the institutions trading in the D2C market who are largely restricted to Request For Quote (RFQ) trading over a few platforms with their key bank relationships.

While there are several reasons for this, what has become clearly evident is that the current market structure does not easily facilitate access for all participants to all sources of liquidity.

Can one size fit all?

LiquidityEdge believes that 'one size' or a single all-to all venue cannot meet the diverse needs of market participants in the secondary market. Market participants should be free to access liquidity in whatever way they prefer. Additionally, we believe that the status quo bifurcation of trading between the D2D and D2C markets has reached its shelf life and is no longer fit for purpose. We expect to see in the coming months and years a proliferation of trading models and venues that will seek to support market needs and requirements that in time will ideally plug the gaps currently existing in today's market structure. The most significant of these gaps being:

- Current structural challenges for market participants to face and consume liquidity from non-traditional liquidity providers
- Ability of traders at smaller banks and broker dealers to compete for liquidity in the fast and sometimes 'toxic' environment of anonymous CLOBs
- Lack of appetite at large bank dealers to invest in sales teams and distribution networks necessary to reach all and not just the biggest and most valuable of customers

Risk Controls

Despite a proliferation of new venues in addition to the incumbents, it is LiquidityEdge's recommendation that venue risk controls be outlined as best practice and not rely on prescriptive or uniform measures, ensuring a continuous cycle of improvement. All venues

should be expected to provide risk tools that would in no way hinder the proper and efficient functioning of the market. These risk tools should include but not be limited to individual counterparty credit limit controls, maximum order entry limits, API throttling and throughput controls, kill switches by counterparty and market suspension capabilities.

Central Clearing

In today's market, FICC acts as a central counter-party (CCP) for its membership. However, PTFs often don't qualify for membership and when qualified, find FICC membership costs prohibitive, opting instead for bi-lateral settlement outside the CCP model. With FICC volumes trending downward, presumably due in part to the rising dominance of PTFs, the value of central clearing is impacted and the market remains open to risks associated with failures outside this centrally cleared model. In addition, as a result of this bi-furcated clearing structure and the increasing frequency with which FICC members transact with non-members, clearing firms and trading venues who facilitate this interaction find themselves exposed to potentially significant intra and end of day margin calls as a result of only one side of the trade being submitted to FICC. These margin requirements will eventually limit the appetite of trading venues and clearing firms to facilitate trading between FICC members and non-members, forcing the "riskless principal" facilitating the transaction to effectively assume the credit risk for the non-member. There is no doubt that as long as this structure remains in place, the continued evolution of the market and ability to maximize the availability of liquidity to all market participants will be limited. It is LiquidityEdge's recommendation that these two disparate clearing and settlement practices be brought together for the good of the market.

We thank you for giving LiquidityEdge the opportunity to comment on the issues raised by the Treasury notice and should you wish to discuss our response in more detail please feel free to contact us.

Yours faithfully,
LiquidityEdge

1370 Broadway, Suite 1050
1(646) 630 7410