PIMCO

Via Electronic Submission

May 22, 2020

Mr. Christopher Kirkpatrick, Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Re: Amendments to the Real-Time Public Reporting Requirements (RIN 3038-AE60)

Dear Secretary Kirkpatrick,

This letter is submitted on behalf of Pacific Investment Management Company LLC ("PIMCO") to provide comments to the U.S. Commodity Futures Trading Commission (the "Commission" or the "CFTC") on its proposed amendments to regulations under Part 43 regarding real-time public reporting and dissemination of swap data (the "Proposal").[1] We appreciate this opportunity to share our comments with the Commission and to build on the previous comment letters that we have submitted to the Commission addressing this important rule set.[2] As we comment below, PIMCO urges the CFTC not to adopt increases to block and cap size, for purposes of real time reporting delays, as these changes would directly and adversely impact liquidity for block products and increase prices for PIMCO's clients.

Background

PIMCO is registered as a commodity pool operator (CPO) and commodity trading advisor with the CFTC and an investment adviser with the SEC. PIMCO manages approximately $1.78 trillion in total assets and approximately $464.5 billion in CPO assets[3] on behalf of millions of individuals and thousands of large institutions in the United States and globally, including state retirement plans, unions, university endowments, corporate defined contribution and defined benefit plans, and pension plans for teachers, firefighters and other government employees. PIMCO is engaged in the long-term management of our clients' assets through the management of separate client accounts, in accordance with the specific investment styles and objectives specified by each client, and through the management of mutual funds and other commingled funds that are offered to institutional and individual investors. Our goal is to make long-term investments that will meet our clients' objectives and provide them with returns

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1 Real-Time Public Reporting Requirements, 85 Fed. Reg. 22516 (proposed Apr. 17, 2020).

2 *See*, *PIMCO* Comment Letter to the CFTC, *re: Effect of Block Trade Reporting Requirements on End-Users of Swaps (Notice of Proposed Rulemaking (the "Release"): Real-Time Public Reporting of Swap Transaction Data, RIN 3038-AD08)* (Feb. 7, 2011)), https://comments.cftc.gov/PublicComments/ViewComment.aspx?id=58095&SearchText=PIMCO; s*ee also*, PIMCO Comment Letter to the CFTC, *re: Project Kiss,* RIN 3038-AE55 (Sept. 29, 2017).

3 Figures current as of March 31, 2020.

that are consistent with their risk preferences over their desired time horizons. Importantly, PIMCO manages assets in a fiduciary capacity on behalf of our clients and does not engage in any proprietary trading. In this role as a fiduciary, PIMCO also seeks to minimize transaction costs, including the cost of execution, because those costs are borne by our clients, not by PIMCO.

As large participants in the financial markets and stewards of retirement assets and savings for millions of clients globally, we care deeply about the liquidity, resiliency, stability and overall integrity of the markets in which we operate. We are an active observer of and commenter on market developments, including regulatory developments that have implications for market liquidity, resiliency, stability and overall integrity. It is from these two perspectives – as fiduciaries to our clients and as market participants with deep subject matter expertise and commitment to ensuring that markets continue to perform in a liquid and orderly manner – that PIMCO submits the following comments aimed at ensuring that the real-time reporting rules are calibrated in a way that promotes liquidity, depth, and the ability to transact.

I. The CFTC Should Not Adopt the Proposed Increases to Block and Cap Sizes, Which Will Negatively Impact Liquidity and Increase Transaction Costs for End-Users.

Block transactions are a common and efficient tool by which corporations, banks and institutional investors, such as PIMCO, manage large risks. As a global asset manager with discretionary trading authority over our client portfolios, PIMCO often aggregates trades in the swaps market on behalf of the thousands of separate client accounts and pooled funds that we manage. By aggregating client trades into larger block transactions that are negotiated and executed at a single price, PIMCO is able to more efficiently fulfill our fiduciary duties and regulatory obligation to seek to obtain best execution in the swaps market. As the Commission is aware, the swaps market is an exclusively institutional market with no retail participation

As we have described in prior comments on this subject, block transactions, in conjunction with sufficient time delays for public reporting, provide a critical mechanism for market participants to trade large orders and avoid potentially disruptive pricing and market impacts that could result if the block trade limits were too high or details were prematurely disseminated to the market. Specifically, the premature dissemination of block trade details transmits sensitive proprietary information to short-term speculators before swap dealers are able to hedge and otherwise manage their risk. This leads to two potentially unfavorable outcomes, including either 1) the swap dealer refuses to enter into a block transaction with an end-user because the dealer cannot adequately hedge its economic exposure before proprietary transaction information is released to the market; or 2) the swap dealer demands a much higher price to transact, which reflects the increased risk that the dealer may have difficulty hedging its exposure once transaction information has been released to the marketplace. In either scenario, market liquidity decreases, bid-ask spreads widen, and costs to end-users – not to the investment managers such as PIMCO but to the clients on whose behalf they transact – increase. None of these outcomes are consistent with the spirit or objective of this rulemaking or with the statutory language on block trades included in the Dodd-Frank Wall Street Reform and Consumer Protection Act.[4]

While we appreciate that the Proposal provides an increased time delay for transactions that meet the block trade thresholds, the increases established in the Proposal to the block and cap sizes are significantly higher than existing thresholds, and materially larger than the current social size –the size at which dealer counterparties are able to readily transact because sufficient liquidity is available for dealers to hedge their risk in related markets. Increasing the minimum block sizes to the proposed higher levels will result in far fewer trades qualifying for block treatment, while increasing the proposed cap sizes will result in the over-disclosure of information about trade sizes. Each of these outcomes will result in a significant reduction in market liquidity and increased costs, as dealer counterparties will face greater challenges in managing their risk once the details of larger trades, that no longer qualify as block or cap trades, are immediately disseminated in the market. The higher proposed block sizes will also have implications for swaps that are subject to mandatory trade execution ("MAT swaps"), by requiring that larger sized trades that no longer meet the proposed block thresholds must be executed on a swap execution facility ("SEF"). Given that market participants always have the ability to trade larger size trades on the SEF if they believe that such trading would yield better execution quality, PIMCO does not believe that there is any practical benefit or policy basis for forcing such an outcome.

For the reasons described, PIMCO does not support the proposed minimum block and cap sizes.

II. Existing Minimum Block and Cap Sizes Have Already Contributed to Market Illiquidity.

Our experience during the recent period of market illiquidity in March of this year proved that the existing minimum block and cap sizes may be excessively large and caused challenges for dealers attempting to make markets or to take on or lay off risk. In some instances, our counterparties were simply unable to quote markets for block trades in otherwise liquid products, in part, based on their own inability to efficiently manage the risks associated with transacting in larger sizes in a volatile market. In other cases the bid-ask spreads grew sufficiently large so as to render the block trades economically unfavorable. As a result of this market dynamic, the execution of swap transactions was further hampered as swap end users were led to transact in smaller trade sizes, which increased information leakage and led to wider bid offers and larger market impact, in an already illiquid market. The dissemination of pre-trade information in this manner further exacerbated the winning counterparty's ability to efficiently hedge its risk in an illiquid market. The recent market events further underscore the importance of appropriately calibrating the benefits of market transparency with their impact on block trade liquidity. In light of these recent experiences, we believe that it is highly likely that the higher minimum block and cap sizes will lead to even further deterioration of liquidity and these negative effects on liquidity will be even more detrimental in times of market stress. Furthermore, the higher costs of transacting in the swap market will be borne by PIMCO's clients, including institutional

[4] *See generally* Real-Time Public Reporting of Swap Transaction Data, 77 Fed. Reg. 1182 (Jan. 9 2012) (noting that Dodd-Frank amended the Commodity Exchange Act to reduce risk, increase transparency and promote market integrity within the financial system by, among other things, creating robust real-time reporting regimes).

investors, as well as individual investors such as retirees and savers. From a public policy perspective, the proposal will result in increases in costs to Main Street investors without any discernable benefit to the overall market.

We therefore respectfully request that (a) the Commission further review market data regarding block transactions in order to determine lower and more appropriate block and cap sizes, including potentially lowering the sizes prescribed by existing rules and (b) to the extent the Commission is not able to accommodate the foregoing, the Commission maintain existing or materially similar block and cap sizes as under the existing rules.

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Thank you again for the opportunity to comment on the Proposal. We remain at the disposal of the Commission to provide additional information and insight into the valuable and growing role that the derivatives markets serve for PIMCO, its clients and the broader marketplace.

Sincerely,

E. Roman

Emmanuel Roman
Managing Director, Chief Executive Officer