FALCON SQUARE CAPITAL

October 3, 2022

Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1506

Re: Comment on FINRA Regulatory Notice 22-17

Dear Ms. Mitchell,

Falcon Square Capital, LLC (CRD# 165225) appreciates the opportunity to provide comments to FINRA Regulatory Notice 22-17 addressing the proposed alteration of FINRA Rule 6730 to require the reporting of requisite trade information through TRACE within one minute of execution (the "Proposal").

Falcon Square is a fixed-income broker-dealer serving institutional investors, corporations, and municipalities. We trade the full spectrum of fixed income securities, including corporates, municipals, treasuries, agencies, RMBS, CMBS, commercial paper, certificates of deposit, and structured products on an agency and riskless principal basis. We are certified Women Owned by the Women's Business Enterprise National Council (WBENC).

FINRA has acknowledged that "[s]mall firms represent a critical portion of FINRA's membership and often face regulatory challenges that are unique from their large firm counterparts."[1] As discussed below, we believe the Proposal will drive smaller broker-dealers like us from the fixed-income markets due to prohibitive costs. Further, the Proposal does not provide evidence to support how the change would result in a material improvement of the fixed-income securities markets. For these reasons, Falcon Square strongly urges that FINRA revisit its proposal, especially as it relates to smaller firms and specialized fixed-income trading activity.

The Proposal would essentially require firms to implement costly electronic systems to report within the one-minute time period. Falcon Square and similar smaller firms simply do not transact a sufficient number of trades to warrant such a costly purchase. We believe we would have to spend approximately half a million dollars annually for an upgraded order management system ("OMS") to meet the one-minute reporting deadline as proposed. Even if we upgraded our OMS, we would still be unable to meet the one-minute reporting requirement for many trades because our "high touch" institutional agency and riskless principal trading activity is very personnel intensive: the same representatives engaged in trading are also involved in reporting the trades once agreed upon by all sides.

As a broker-dealer servicing institutional customers as an agent/riskless principal, we sometimes need than one minute to confirm, execute and report a transaction, as we must confirm both the buy and sell sides of a transaction and, sometimes, a single trade can involve multiple buyers or sellers. For example, once a trade is agreed to by both sides, we must confirm several things, such as the CUSIP number, size, price, yield, trade and settle dates, the name, the

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[1] Small Firm Report (PR) | FINRA.org

firm, and accrued interest, often with multiple parties. Additionally, it is important to point out that for smaller firms or for firms that do not self-clear, the simple collection and transmission of data can take longer than one minute. Our system must capture execution data obtained either electronically or manually, then send the trade data to our clearing firm. The clearing firm processes the trade into systems that match that trade information with other dealers and custodians. Simultaneously, the clearing firm transmits that trade data to the appropriate regulator for reporting. Data flows from our firm to the clearing firm, to the regulators, then back in the opposite direction with confirmation the data was received. If counterparties are not matched appropriately, any issues must be addressed and corrections made. This process is time consuming, but we have been able to meet the 15-minute reporting requirement of the current rule on a consistent basis. However, confirming both the received sellers' tickets and buyers' tickets and sending the trades to our clearing firm for processing and reporting would be incredibly difficult, if not impossible, to perform for all of our trades in under 60 seconds, even with an upgraded OMS. The one-minute requirement would not allow sufficient time for review and correction of unmatched data within the reporting window. Additionally, if any of the systems went down or were having system delays, our ability to report on time would be compromised.

We are concerned that the Proposal, as it is currently written, will reduce the number of, or eliminate, smaller brokerage firms like ours from the fixed-income securities market, as they will be unable to afford or adopt the changes suggested to meet the one-minute requirement. In a reduced competitive environment, the small and midsize institutional customers who we service will be ignored by the surviving larger dealers who have the resources to fully automate. Although larger institutional customers can trade on automated broker-dealers' fixed-income trading platforms or with the larger bond dealers, many of our smaller institutional clients are not a "fit" with these trading desks because they do not have enough volume or require the customized high-touch execution services that we provide. These clients are serviced by small to mid-sized broker-dealers like Falcon Square – which do not have the capacity to report every trade within one minute. As such, our fear is that the Proposal will both eliminate smaller fixed-income brokers like Falcon Square and harm the small and medium size institutional clients that we serve. If smaller brokerage firms like Falcon Square are forced out of the fixed income business, the overall market will also be negatively impacted from a pricing and liquidity perspective.

In addition to harming an important segment of the existing fixed income market, it is unclear, based on the data used to support the Proposal, why there needs to be a reduction in reporting time for TRACE-eligible securities to increase transparency and improve access to transaction data. The Proposal states that a one-minute rule "will result in quicker reporting and dissemination of transaction information for the remaining 4.9 million reports (or 23 trillion dollars in par value)" from the 81.9% of trades that were already reported within one minute in 2021. It is difficult to discern the significance of this value, however, as the Proposal does not provide empirical evidence or statistical examples of the benefits of capturing the remaining 18.1% of trade reports within one minute, and does not measure any purported benefit against the cost of removing smaller brokers from the market.

It is also unclear how implementing a one-minute reporting time will reduce trading costs for investors. The Proposal states that "[r]esearch has shown that TRACE dissemination improved price discovery and reduced trading costs for corporate bond investors," and includes references to studies analyzing the effects of market transparency on bond prices in footnote 23. These studies, however, appear to discuss the effects that the reduction in trading time pre- and post-TRACE amendments in 2005 – from reporting by the end of a trading day versus reporting within 15 minutes – had on the municipal and corporate bond markets. The Proposal appears to be extrapolating the effects that the 2005 change to a 15-minute reporting requirement had in TRACE-eligible securities to support reducing the reporting timeframe to one minute, without analysis or data to support this extrapolation.

As written, the Proposal would pose monumental costs for small and midsize fixed income broker-dealers. The Proposal does not address the costs that smaller dealers will be forced to bear to implement more sophisticated and expensive automated reporting systems, nor the anti-competitive results that would consequently follow. As discussed above, a smaller firm like ours would have to spend hundreds of thousands of dollars more each year to establish and maintain an automated electronic system in order to meet the one-minute reporting deadline as proposed.

The Proposal acknowledges that firms without automated reporting systems or third-party reporting services may find it difficult to meet the new reporting requirement. We believe the Proposal underestimates the effect of this rule change. The Proposal will force smaller broker-dealers to decide whether to close their business due to costs or risk violating the rule. Consequently, the Proposal would have the effect of reducing the number of reporting firms and thus competition. As discussed above, reducing competition among fixed income brokers would also harm small and medium-sized asset managers.

Falcon Square is in agreement with FINRA's goal to "increase[] transparency and improv[e] access to timely transaction data." As outlined above, however, the new rule would be cost prohibitive to smaller firms, be incredibly difficult to meet with more complex or involved fixed income trades, and thus curtail customer access to the fixed income securities market. We strongly encourage FINRA to revisit this proposal and consider the economic challenges of smaller firms before modifying the current rule.

Sincerely

Melissa P. Hoots

Melissa P. Hoots, CEO/CCO