The Credit Roundtable
In association with the Fixed Income Forum

November 7, 2012

Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1506

Re: FINRA Regulatory Notice 12-39 on TRACE Dissemination Issues

Dear Ms. Asquith:

The Credit Roundtable welcomes the opportunity to comment on FINRA's two proposals, first to potentially modify current TRACE dissemination caps, and second, to potentially disseminate information on transactions involving Rule 144A transactions. Formed in 2007, The Credit Roundtable, organized in association with the Fixed Income Forum, is a group of large institutional fixed income managers including investment advisors, insurance companies, pension funds, and mutual fund firms, responsible for investing more than $3.8 trillion of assets. The Credit Roundtable seeks to enhance investment grade bondholder protection and was formed in response to events such as leveraged buyouts, leveraged recapitalizations and other corporate actions that adversely affected the credit quality and valuations of a significant number of existing investment grade bond issues. Its mission includes education, outreach, and advocacy. It hopes to benefit all bond market participants through increased transparency and improved market efficiency and liquidity.

In order to evaluate making any changes in the corporate bond trade information disseminated by TRACE, it is first important to understand the current nature of trading in the corporate bond market. The attached graphs chart the state of liquidity and trading in the investment grade corporate bond market over approximately the last decade. Graph 1 shows that the overall size of the investment grade corporate bond market has grown substantially, particularly in the years following the financial crisis as many corporations issued debt to extend the maturity of their liabilities and take advantage of the lower interest rate environment. Contrast that with how primary dealers (security dealers who can deal directly with the Federal Reserve, and who do the vast majority of trading in corporate bonds) have changed their holdings of corporate bonds available for facilitating customer transactions. As Graph 2 points out, their absolute dollar value grew steadily through 2007 and then plummeted back down to levels last seen in 2002. This decline is even more striking when one looks at the drop of dealer positions relative to the large increase in the corporate bond market, as Graph 3 does. The amount of dealer positions on a relative basis to the size of the market is only approximately one-sixth of its peak in 2007.

Let's turn to another perspective on the market, trading. Graph 4 shows that trading volumes have grown somewhat since 2005; however, when adjusted on a relative basis to the large growth in the size of the overall market, they have dropped. In particular, as Graph 6 indicates, it

Institutional Investor
225 Park Avenue South, 7th Floor, New York, NY 10003, Tel: (212) 224-3074, Fax: (212) 224-3838

now takes about 335 business days for the investment grade corporate market to turn over, a substantial increase from approximately 200 business days back in 2005. It is also important to realize that this drop in liquidity occurred before the formal imposition of the Volcker Rule, which in its current proposed formulation could have a substantial negative impact on bond market liquidity.

TRACE Investment Grade and Non-investment Grade Dissemination Cap Proposal

In order to analyze if it is appropriate to change TRACE dissemination caps, it is important to understand how the bond market works. Bonds trade very differently than stocks. Investors do not trade directly with each other in the vast majority of cases; they use bank dealers as intermediaries. In addition, outside of U. S. Treasuries and mortgage-backed securities, most corporate bonds trade infrequently. For example, Ford Motor Company and Ford Motor Credit have more than 30 issues whose size are $100 million par value or larger. If, hypothetically, a portfolio manager needs to meet investor redemptions and decides to sell a specific Ford bond, it is unlikely that there will be a buyer at that immediate point in time that needs that exact combination of issuer, maturity, and coupon. Such a trade will often require the dealer to hold the bond on its balance sheet for some period of time before it finds a buyer. Any analysis to change the caps must look at whether a potential increase in price transparency will be bought at a decrease in liquidity. The current caps for investment grade corporate bonds of $5 million and non-investment grade bonds of $1million are considered "round lot" transaction amounts and provide good information about transaction prices. Against a backdrop of substantially decreased liquidity as discussed earlier, it is our view that increased size transparency of trades accomplished by raising the dissemination caps will make the dealer community even more reluctant to position bonds on their balance sheet, particularly those issued by smaller companies. We, therefore, recommend that there be no change to the dissemination caps for investment grade and non-investment grade TRACE-eligible securities.

Rule 144A Securities Dissemination Proposal

Over time, as the Rule 144A market has matured, the size and liquidity of the securities have grown substantially. In many cases, their trading rivals public registered securities. We therefore agree with the proposal to disseminate information on transactions in Rule 144A securities. The TRACE dissemination caps should be exactly the same as for publicly registered investment grade and non-investment grade corporate securities.

U. S. Government Agency Dissemination Proposal

As a direct result of the financial crisis, there have been structural changes in the government agency debt market that resulted in less liquidity. As Graph 7 indicates, the amount of debt outstanding from the three largest government agencies has declined sharply over the last several years. In the case of the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC), their regulator has mandated that they reduce the size of the mortgage portfolio that they hold on their own balance sheets. With regards to the Federal

Home Loan Banks (FHLB), their advances (loans) to their constituent members have decreased as their members have increased their holdings of time and demand deposits. This decline in debt outstandings due to a decrease in new issuance has brought with it a fall off in liquidity in trading of these securities. For these reasons, we would recommend not changing the dissemination cap for these instruments.

The Credit Roundtable looks forward to working with FINRA on this issue. If you have any questions, please contact me at 212-224-3074 or lperlmuth@iimemberships.com.

Sincerely,

Lyn Perlmuth

Lyn Perlmuth
Director, Fixed Income Forum
On Behalf of the Credit Roundtable