Hi All,

These are WRDS' Comment on the Reduction of the Delay Period for Historic TRACE Data:

1. FINRA proposes to reduce the delay period for Historic TRACE Data from 18 months to six months. Historic TRACE Data does not include masked MPID information. In light of this fact, is a six-month delay sufficient to address concerns regarding the current trading, positions or strategies of particular market participants? Please provide information to support your analysis. Are there other possible harms associated with reducing the delay period from 18 months to six (in addition to potential information leakage regarding current trading, positions or strategies)? Would the six-month delay be more detrimental for certain types of TRACE-eligible securities compared to others. Should FINRA consider setting different delay periods for different types of TRACE-eligible securities?

Comment:

During to recent developments in the fixed income market, with the introduction of new derivative instruments (such as ETFs, ETNs, Trusts, and other vehicles) and new players (stat arbitrageurs, smaller hedge funds, robo-advisors, etc), the challenges in the fixed income market, and particularly the corporate bond market have been intensifying and becoming more complex. From the point of view of academic community, which WRDS represents, more timely dissemination of Enhanced Historic TRACE database is expected to be useful. It will favor academic research on current issues which boost policymakers' understanding of potential dislocations in the corporate market for bonds and for other derivate fixed-income securities. So, they may respond more promptly by devising more effective rules and/or regulations. It would facilitate more research in the areas pertaining to the impact of TRACE on the corporate bond market and, specifically, the potential reduction in trade execution costs and pricing transparency resulting from the sooner availability of transactions data for market participants.

For example, Cici et al (2011) analyzed the pattern of pricing dispersion in six-month event windows immediately before and after the TRACE dissemination event dates and found evidence consistent with the view that the transparency-enhancing TRACE system contributed to increasing pricing precision, including a spillover effect for non-disseminated bonds. Less delayed releases of the data can also produce more timely answers to questions surrounding potentially recent mispricing of various fixed-income securities held not only by bond mutual funds, but also by bond ETFs (recent SEC inquiry into whether PIMCO improperly priced odd lots of certain non-agency mortgage-backed securities purchased by its Total Return Active BOND ETF is a good illustrative example).

More timely and time-relevant access to the TRACE transactions would speed up the process of identifying and analyzing potential episodes of discontinuous market pricing and developing mechanisms to minimize the risks associated with them. Identifying and analyzing these events are usually done by the academic community using financial databases.

2. What public and investor protection benefits might arise from the addition of masked MPIDs to TRACE data available to academics? FINRA proposes that the Academic TRACE Data product be issued on a 24-month delayed basis. Is this delay an appropriate period of time to allay concerns regarding potential reverse engineering of dealer identities? If not, what other delay period would be appropriate to address these concerns, while still providing data that is timely enough to be useful for market research purposes? Would a shorter delay period, such as 12 months, be appropriate to enhance the timeliness of the data for research purposes while still minimizing the risk and potential impact of reverse engineering of dealer identities?

Comment:

Academic community's primary interest in having broker IDs is not related to the desire to determine the identities/names of underlying brokers, but most importantly to assess the role of brokers in bond market liquidity and price discovery process. Major data vendors provide data for academic research with masked IDs for brokers. It has been available for many years in WRDS without compromising identify of the parties. Thomson-Reuters IBES analyst forecast and recommendations database is a good example as it has been providing masked IDs for both brokerage houses as well as individual analysts since the early 80's. Another example is Ancerno (Abel-Noser) high-frequency database of institutional trades which academic researchers have used mainly for the reason that it contains a masked institution ID (e.g., Arif, Rephael and Lee, 2015; Choi and Sias, 2012).

So far WRDS is unaware of cases when availability of masked IDs led to successful reverse engineering and public disclosure of broker identities by academic researchers. Broker ID is very important in studies that try to control for fixed effects associated with specific brokers. For example, in "The Market for borrowing corporate bonds" by Asquith, Au, and Pathak (2013), authors use brokerid as a control variable in estimating the borrowing cost of corporate bonds, which allows for much cleaner identification and analysis of borrowing cost of corporate bonds after controlling for broker-related fixed effects. Other researchers used masked broker IDs to study the structure of the dealer network and how it is related to bid-ask spreads in the market for Registered and Rule 144a securitizations. Furthermore, validity of many econometric tests also depends on the researcher's ability to cluster the test statistics

not just by individual bonds, but also by brokers, as it results in more informative and accurate inferences and not related in any way to attempts to reverse engineer the identity of the brokers.

Additional important challenge using TRACE data, is the absence of a historical identifier database that properly maps TRACE securities to their historical secondary identifier (issue name, issuer, cusip, ticker, etc) as well as the characteristics of such issues in the time series (coupon rate, frequency, terms, maturity date, ratings, etc.). The absence of such info jeopardizes any attempt to process and analyze TRACE data. One solution is to provide historical snapshots to the MASTER ID table that FINRA provides online.

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