September 14, 2020

By electronic mail to pubcom@finra.org

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

Re: Regulatory Notice 20-24: FINRA Requests Comment on Proposed Changes to TRACE Reporting Relating to Delayed Treasury Spot and Portfolio Trades

Dear Ms. Mitchell,

The Financial Information Forum (FIF)[1] appreciates the opportunity to comment on Regulatory Notice 20-24 (the Regulatory Notice) published by Financial Industry Regulatory Authority, Inc. (FINRA).[2]

The Regulatory Notice requests comment on two proposed changes to the TRACE reporting rules. The proposed changes were recommended by the Fixed Income Market Structure Advisory Committee (FIMSAC) established by the Securities and Exchange Commission.[3]

The first proposed change would require firms to "identify corporate bond trades where the price of the trade is based on a spread to a benchmark Treasury security that was agreed upon earlier in the day … and report the time at which the spread was agreed upon…."[4] We refer to this proposal as the delayed Treasury spot trade proposal. The second proposed change would require firms to "identify corporate bond trades that are a part of a larger portfolio trade."[5] We refer to this proposal as the portfolio trade proposal.

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[1] FIF (www.fif.com) was formed in 1996 to provide a centralized source of information on the implementation issues that impact the securities industry across the order lifecycle. Our participants include trading and back office service bureaus, broker-dealers, market data vendors and exchanges. Through topic-oriented working groups, FIF participants focus on critical issues and productive solutions to technology developments, regulatory initiatives, and other industry changes.
[2] FINRA Regulatory Notice 20-24 (July 16, 2020), available at https://www.finra.org/sites/default/files/2020-07/Regulatory-Notice-20-24.pdf ("Regulatory Notice 20-24") .
[3] Meeting of the Securities and Exchange Commission Fixed Income Market Structure Advisory Committee, Monday, February 10, 2020, 9:32 a.m., available at https://www.sec.gov/spotlight/fixed-income-advisory-committee/fimsac-021020-transcript.pdf. See, in particular, pp. 81-132.
[4] Regulatory Notice 20-24, p. 1.
[5] Regulatory Notice 20-24, p. 1.

Delayed Treasury spot trade proposal

The delayed Treasury spot trade proposal would require firms to implement significant system changes. FIF members have identified various trading scenarios that could be impacted. For example, a dealer could agree on the terms for a delayed Treasury spot trade earlier in a trading day. These terms could be agreed through an electronic trading platform used by the dealer or through an exchange of instant messages between the dealer and a customer. The agreed terms include the Treasury bond to be used as the benchmark and the agreed spread versus that benchmark. Later in the trading day (for example, at 3 pm), the electronic trading platform reports an executed trade back to the dealer, or a trader at the dealer firm enters an execution into the dealer's order management system, and the dealer's systems report the trade to TRACE. FIF members have advised that dealer systems do not currently store the time the original terms are agreed in a manner that would enable reporting to TRACE on a timely basis. The proposal, which requires reporting of this time, would require significant cost and work for firms to upgrade various systems, including order management systems, trade reporting systems and databases, as the requirement to report a new field is a significant driver of additional cost.

FIF members propose that FINRA consider as an alternative mandating that the SpecialPriceIndicator tag (FIX Tag 22006) be marked as "Y" (Yes) for delayed Treasury spot trades[7] or that another existing TRACE tag be marked as instructed by FINRA to identify this type of trade. SpecialPriceIndicator is a tag that is included in the current TRACE reporting specifications. If firms report in this manner, it would signal to the market that the terms of the trade were not agreed based on the current market conditions. Since populating the SpecialPriceIndicator necessitates populating the SpecialPriceReason (Tag 5149), further discussion of what would be appropriate would be needed.

Portfolio trade proposal

FINRA proposes to require firms to append a new modifier to their TRACE reports "to identify a trade in a corporate bond that has all of the following characteristics: (i) executed between two parties; (ii) involving a basket of corporate bond securities of at least 30 unique issuers; (iii) for a single agreed price for the entire basket; and (iv) executed on an all-or-none or most-or-none basis."[8]

FIF members propose that condition (ii) be removed. A trade involving fewer than 30 unique issuers would still be a portfolio trade if it is executed "for a single agreed price for the entire basket" and "executed on an all-or-none or most-or-none basis".

If condition (ii) is retained, FIF members recommend that condition (ii) be based on number of unique issues (counted using CUSIPs, TRACE Symbols assigned by FINRA, etc.) rather than the number of unique issuers whose securities are included in the basket. Shifting to an issue basis would avoid challenges in

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[7] FIX Specifications for the Trade Reporting and Compliance Engine system (TRACE), Trade Reporting for OTC Corporate Bonds and Agency Debt (Corporates & Agencies), version 1.4 (March 5, 2018), available at https://www.finra.org/sites/default/files/CA-trace-fix-specs-v1.4.pdf ("TRACE FIX Specification"). See p. 21.

[8] Regulatory Notice 20-24, p. 4.

identifying and processing within the TRACE reporting timeframe which bonds are associated to a particular issuer. In addition, FIF's recommendation would result in more trades being reported as portfolio trades providing greater transparency to the market while enhancing FINRA's audit trail.

Basing the determination of a portfolio trade on the number of unique issuers also raises the question of whether bonds of affiliated issuers should be counted as one or multiple issuers. For example, would the debt of a wholly owned Special Purpose Vehicle, which exists solely for the purpose of issuing debt, be considered as distinct from the debt of the parent issuer?

If condition (ii) is retained, FIF members also request guidance for the scenario where a portfolio trade involves some bonds that are TRACE-reportable and other bonds that are not TRACE-reportable (for example, corporate bonds that are not denominated in U.S. dollars). Should the bonds that are not TRACE reportable be counted in determining whether the trades in the TRACE-reportable bonds are part of a portfolio trade?

Regarding condition (iii), FIF requests that FINRA, as part of the rulemaking process, provide guidance on:

- The definition of a "single agreed price" in the context of a portfolio trade
- Whether the following scenario would constitute a portfolio trade:
    - A third-party publishes reference prices for a universe of bonds at a set time each day at 3 pm
    - At 10 am two firms agree to trade a basket of securities that represents a subset of this universe based upon the as-of-yet unpublished 3 pm reference price
    - At 3:30 pm the two firms review the prices published at 3 pm for the basket constituents and come to consensus on the final price, which is an aggregate of the constituent prices.

Please also advise regarding whether the existence of any offset to the price (e.g. 3 pm reference price plus a fixed markup) would change whether the basket in the above scenario would be considered a portfolio trade.

Implementation timeline

Based on the significant technical work that will be required to implement the proposed changes and various issues where the industry will require interpretive guidance from FINRA, FIF members request that the implementation timeline for any changes commence upon the publication of updated technical specifications and the issuance of FAQs by FINRA. In other words, if firms will have a period of "n" days to implement changes required by the rule, the commencement of this period of "n" days should be the day that FINRA publishes updated technical specifications and issues FAQs in response to industry member requests for guidance.

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FIF appreciates the opportunity to comment on Regulatory Notice 20-24. If you would like clarification on any of the items discussed in this letter or would like to discuss further, please contact me at [redacted].

Very truly yours,

/s/ Howard Meyerson

Howard Meyerson
Managing Director, Financial Information Forum