September 11, 2015

Marcia E. Asquith
Office of the Corporate Secretary
Financial Industry Regulatory Authority
1735 K Street, NW
Washington, DC 20006-1506

Ronald W. Smith
Corporate Secretary
Municipal Securities Rulemaking Board
1900 Duke Street
Alexandria, VA 22314

Re: FINRA Regulatory Notice 15-26,
FINRA Requests Comment on a New Academic TRACE Data Product

MSRB Regulatory Notice 2015-10,
Request for Comment on Establishment of an Academic Historical Trade Data Product

Dear Ms. Asquith and Mr. Smith:

The Securities Industry and Financial Markets Association (“SIFMA”)
1 appreciates the opportunity to comment on the Financial Industry Regulatory Authority’s (“FINRA’s”) Regulatory Notice 15-26 and the Municipal Securities Rulemaking Board’s (“MSRB”) Regulatory Notice 2015-10 (together the “Proposals”). In response to requests from certain parties, the MSRB and FINRA are proposing to create new Real-time Transaction Reporting System (“RTRS”) and Trade Reporting and Compliance Engine (“TRACE”) Academic Data Products that would include anonymized dealer identifiers. The RTRS and TRACE Academic Data Products would be made available only to institutions of higher education and would include the same transactions included in the current historical transaction data sets. The MSRB and FINRA propose to take measures to allay concerns regarding the potential for reverse engineering of anonymized dealer identifiers to determine dealer identities by: (1) explicitly requiring subscribers to agree that they will not attempt to reverse engineer the identity of any dealer; (2) prohibiting the redistribution of the data in the RTRS Academic Data Product and TRACE Academic Data Product; (3) requiring users

1 SIFMA is the voice of the U.S. securities industry, representing the broker-dealers, banks and asset managers whose 889,000 employees provide access to the capital markets, raising over $2.4 trillion for businesses and municipalities in the U.S., serving clients with over $16 trillion in assets and managing more than $62 trillion in assets for individual and institutional clients including mutual funds and retirement plans. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit http://www.sifma.org.
to disclose each intended use of the data (including a description of each study being performed and the names of each individual who will have access to the data for the study); and (4) requiring that the data be returned or destroyed if the agreement is terminated. The transactions included in the RTRS and TRACE Academic Data Products will be aged no less than 24 months.

SIFMA continues to support the MSRB’s and FINRA’s efforts to improve market transparency to investors and promote regulatory efficiency. To this end, we suggest certain modifications to the Proposals.

I. Access to data by Regulators

SIFMA believes it is important to note in the context of the Proposals that regulators have real time access to RTRS data and TRACE Data, including dealer identifiers, for market surveillance and enforcement purposes. We agree with the MSRB and FINRA that not all information or transactions reported to RTRS and TRACE are necessary to serve the transparency objective of the system and therefore do not qualify for public dissemination. Among other things, information that provides the identity of each dealer that executed a transaction reported to RTRS and TRACE is not publicly disseminated.

II. Anonymizing Dealer Identities and Reverse Engineering

SIFMA is concerned that the Proposals to use anonymized dealer identifiers to make available the RTRS data and TRACE data do not effectively protect dealers’ identities. Given the unique trading structure of certain firms, (i.e., some firms will always demonstrate back-to-back trades followed by a trade with a customer), it likely will not be difficult to reverse engineer to determine certain dealer identities. A preferable approach would be to make available the RTRS data and TRACE data through groupings of comparable dealers. SIFMA suggests that the MSRB and FINRA adopt the peer group criteria used in MSRB and FINRA report cards to aggregate dealers into reportable groups. This would allow academics to track trading patterns and pricing in the secondary market, while alleviating concerns over reverse engineering. We are particularly concerned about making primary markets (P1) data available in the Academic Historical Data Product, as seems to be envisioned, given the ready ability to reverse engineer dealer identities from public information. If the MSRB and FINRA insist on making the data available on a dealer-by-dealer basis, we would propose excluding primary (P1) trades from the data set and a periodic scrambling of the dealer identity number in order to minimize the risk of reverse engineering.

The potential impact of reverse engineering could be significant. Dealer trading strategies may be deciphered through reverse engineering of MPIDs and reviewing trading patterns and practices. If dealer trading strategies are publicly known they may significantly impact a dealer’s ability to provide the market with liquidity. Additionally, reverse engineering of dealer MPIDs may also lead to the potential reverse engineering of specific client transactions. The disclosure of any client specific information may reveal
confidential business information and the confidentiality of such information isn’t necessarily removed by the passage of time.

III. Scope of Internal Users and Authorized Use

The proposal contains no standard around who at the academic institutions may access the RTRS data and TRACE data. SIFMA suggests that the MSRB and FINRA amend the Proposals to include parameters around who may be considered an “Internal User” or “Recipient/Licensee”. SIFMA also suggests that the MSRB and FINRA further limit “Authorized Use” to serve the purpose of research and to exclude any commercial purposes. Including such limitations will better ensure that the data is accessible by the appropriate network of users and for the purposes envisioned by the Proposals. These measures will also decrease the likelihood of data misuse and reverse engineering of dealer identities.

IV. Likelihood of Data Breaches

Recent headlines\(^2\) have been filled with reports of various types of data breaches\(^3\) on systems likely far more secure than any system an academic researcher would use to store or transmit the data. Despite the well-intentioned safeguards and restrictions proposed by the MSRB and FINRA, SIFMA believes that data breaches are inevitable. This can have a negative impact on market liquidity (i.e. revealing dealer trading and distribution strategies).

III. Aging of Data

SIFMA believes that if the MSRB and FINRA move forward with the Proposals, the risks to data breaches and reverse engineering can be mitigated sufficiently by an aging period of no less than four years. We believe this timeframe appropriately balances the concerns raised above with researchers’ desire to have access to the data with anonymized dealer identifiers.

IV. Users of Data

SIFMA believes the Proposals limitation on providing the RTRS and TRACE Academic Data Products to “academics currently associated with an institution of higher education in connection with their research activities” may be too limiting and unnecessarily restrictive. If the MSRB and FINRA adequately address the data security and reverse engineering concerns outlined above by using peer group criteria and aging the data for no less than four years, SIFMA believes there is value in providing the RTRS and TRACE Academic Data Product to a wider, yet controlled, group of users in connection

---

\(^2\) See breach list compiled by the Identity Theft Resource Center (“ITRC”). This list is a compilation of data breaches confirmed by various media sources and/or notification lists from state governmental agencies [http://www.idtheftcenter.org/ITRC-Surveys-Studies/2015databreaches.html](http://www.idtheftcenter.org/ITRC-Surveys-Studies/2015databreaches.html).

\(^3\) Data breaches occur due to a variety of reasons including accidental; employee error, negligence, or improper disposal; hacking, skimming, or phishing; insider theft; physical theft; or subcontractor/third party theft.
with their research activities and would support an expanded user group accordingly. There are many organizations engaged in research activities not associated with an institution of higher learning. Any not-for-profit that has a separately identifiable Research Department and regularly publishes research reports should have access to the RTRS and TRACE Academic Data Products on the same terms as academics currently associated with an institution of higher education in connection with their research activities. However, SIFMA would not support expansion of the user group under the construct of the current Proposals.

V. Conclusion

SIFMA sincerely appreciates this opportunity to comment upon the Proposals. SIFMA believes that by implementing the above modifications, the Proposals will provide investors with additional informative market information.

If you have any questions, please do not hesitate to contact the undersigned.

Respectfully submitted,

Sean Davy
Managing Director
Capital Markets Division
SIFMA
(212) 313-1118
sdavy@sifma.org

David L. Cohen
Managing Director & Associate General Counsel
Municipal Securities Division
SIFMA
(212) 313-1265
dcohen@sifma.org

---

cc:

Municipal Securities Rulemaking Board
Lynnette Kelly, Executive Director
Michael Post, General Counsel, Regulatory Affairs

Financial Industry Regulatory Authority
Robert Colby, Chief Legal Officer
Steve Joachim, Executive Vice President, Transparency Services