

It is my fear that the proposed TRACE reporting changes will only increase “tiering” amongst institutional investors in the corporate bond market. Many broker-dealers have reduced coverage and service to smaller institutional investors following the financial crisis. Smaller institutional investors continue to be disadvantaged relative to the largest institutional investors for highly sought new corporate issues as broker-dealers reward the largest institutional investors with better allocations as a quid pro quo for higher secondary trading volumes. The proposed reporting delays and reduction in price transparency for larger block trades could further advantage the largest institutional investors over smaller institutional investors through information asymmetry. Broker-dealers are undoubtedly advantaged by this increased information asymmetry, resulting in wider bid-ask trading spreads the cost of which will be disproportionately borne by smaller institutional investors.

Market liquidity encompasses the concept of breadth as well as depth. While the proposed TRACE reporting changes might encourage more larger block trades, i.e. “depth”, the increased tiering of institutional investors will further disadvantage smaller institutional investors that are an important component of trading market “breadth.”

Gregory M. Simcik, CFA
Credit Analyst
The Pension Boards United Church of Christ, Inc.
475 Riverside Drive
New York, NY 10115