



September 23, 2019

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

Re: FINRA Request for Comment on a Proposal to Require Reporting of Transactions in U.S. Dollar-Denominated Foreign Sovereign Debt Securities to TRACE (FINRA Regulatory Notice 19-25)

Dear Ms. Asquith:

Dimensional Fund Advisors LP (“Dimensional”) appreciates the opportunity to provide the Financial Industry Regulatory Authority (“FINRA”) with our views on the Regulatory Notice 19-25 proposal.¹ As a registered investment adviser that provides investment management services to mutual funds, institutional and financial adviser clients, Dimensional believes that an expansion of TRACE reporting requirements and increased transparency is beneficial to fostering a fair market for all market participants.

We support the proposed expansion of TRACE reporting requirements to collect information on trades in foreign sovereign debt securities that are U.S. dollar-denominated. In this increasingly active segment of the market, we believe this additional reporting will be useful from a regulatory standpoint and therefore beneficial to the market more generally.

Furthermore, we strongly advocate for this proposal to be expanded in the future to publicly disseminate this information in a timely manner, as is currently required for almost all other U.S. dollar-denominated securities traded in the U.S., including that of foreign private issuers. We believe that increased price transparency is always beneficial for markets and will inherently boost investor confidence in this growing market segment.

Increased transparency benefits investors

Since the introduction of TRACE in 2002, the U.S. bond market has grown in size to all-time highs.² Secondary market trading volume continues to rise to all-time highs with each passing year.³ Bid-ask

¹ FINRA Regulatory Notice 19-25 (July 26, 2019) (“Notice”), available online at: <https://www.finra.org/rules-guidance/notices/19-25>.

² See SIFMA’s statistics on amounts outstanding in the U.S. bond market available at <https://www.sifma.org/resources/research/us-bond-market-issuance-and-outstanding/>.

³ See SIFMA’s statistics on U.S. bond market average trading volumes available at <https://www.sifma.org/resources/research/us-bond-market-trading-volume/>.

spreads have shrunk to all-time lows.⁴ We believe it is the transparency brought about by TRACE that helped create these conditions. In turn, we believe that this transparency has increased investor confidence, resulting in more robust capital markets.

We believe complete and immediate post-trade data dissemination for all securities in the market should be the ultimate objective of any program. This model has proven to be fair and effective in the equity markets for many decades. As a result, we are supportive of additional initiatives by FINRA to further increase transparency in the bond markets.

Scope of proposed reporting requirements

Foreign sovereign debt issuance denominated in U.S. dollars has increased substantially since 2013.⁵ Both sovereign governments and supranational organizations have contributed to this growth by issuing a greater number of U.S. dollar-denominated bonds with a larger aggregated par value amount. As such, we agree that FINRA's inclusion of both groups in the scope of the proposed reporting requirements is appropriate.

However, we believe that the reporting timeframe and the dissemination of information could be improved. The growth of this burgeoning market segment has resulted in a total amount outstanding of \$2.3 trillion in U.S. dollar-denominated foreign sovereign debt (as of December 31, 2018). This represents approximately the same amount outstanding as the U.S. agency debt market.⁶ We believe that the foreign sovereign debt market should be held to the same reporting standards as the similarly sized U.S. agency debt market. While the same-day reporting proposed by FINRA would certainly be a step in the right direction, we believe that the 15-minute reporting deadline currently enforced for U.S. agency and corporate bonds denominated in the U.S. dollar, should be consistently implemented across market segments. The transparency brought about by current TRACE reporting standards has increased investor confidence, leading to improved capital market conditions. We believe that the foreign sovereign debt market is no different and investors will similarly benefit from a higher degree of price transparency.

Increased transparency benefits investors

Without the public dissemination of the proposed information, though, none of the transparency benefits can be realized. FINRA recognized this when it stated in the Notice that since “the transactions will initially not be publicly disseminated, no additional . . . benefits from increased transparency will be” realized.⁷ While Dimensional appreciates that FINRA is seeking to take a measured, incremental approach by first analyzing the new regulatory data before determining if a transparency regime would be appropriate, we

⁴ See Bruce Mizrach *Analysis of Corporate Bond Liquidity*, FINRA Office of the Chief Economist Research Note (2015).

⁵ See the Notice, pages 4-7.

⁶ See the Notice, page 4.

⁷ See the Notice, page 8.



would encourage FINRA to take the next step of publicly disseminating the transaction information as soon as possible.

We strongly advocate for the dissemination of this reported information to best serve all investors, including asset managers, institutions, and Main Street investors.

Economic costs should be minimal

FINRA stated in the Notice that the proposal will not “impose significant burdens and costs on firms”.⁸ Dimensional trades with a large number of broker-dealers across a wide range of market segments, including both 1) currently TRACE-eligible securities and 2) the proposed U.S. dollar-denominated foreign debt securities. As FINRA suggests, it is also our understanding that many broker-dealers already have TRACE reporting workflows in place. We believe that the benefits to investors of improving FINRA’s market surveillance program will be significant and therefore support this proposal.

Impacts on trading behavior and competition

Since 2002, the price transparency and improved oversight made possible by TRACE has been overwhelmingly beneficial to investors, led to narrower bid-ask spreads, and fueled capital markets growth. We believe that an expansion of TRACE reporting to a new market segment (including non-U.S. dollar-denominated foreign sovereign debt) would support and increase these benefits.

We appreciate our regulators continuing to strive to improve the fairness of markets for all participants and are grateful for this opportunity to provide our comments. Please consider our suggestions to improve the constructive proposal for additional TRACE reporting.

Sincerely,

/s/ Gerard O’Reilly

Gerard O’Reilly
Co-CEO and Chief Investment Officer

⁸ See the Notice, page 2.