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| Page 1 of * 135 | | SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4 | | File No. * SR 2022 - * 013 Amendment No. (req. for Amendments *) | |
| Filing by Financial Industry Regulatory Authority Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934 | | | | | |
| Initial * <input checked="" type="checkbox"/> | | Amendment * <input type="checkbox"/> | | Withdrawal <input type="checkbox"/> | |
| Section 19(b)(2) * <input checked="" type="checkbox"/> | | Section 19(b)(3)(A) * <input type="checkbox"/> | | Section 19(b)(3)(B) * <input type="checkbox"/> | |
| Pilot <input type="checkbox"/> | | Extension of Time Period for Commission Action * <input type="checkbox"/> | | Date Expires * <input type="text"/> | |
| | | Rule | | | |
| | | <input type="checkbox"/> 19b-4(f)(1) | | <input type="checkbox"/> 19b-4(f)(4) | |
| | | <input type="checkbox"/> 19b-4(f)(2) | | <input type="checkbox"/> 19b-4(f)(5) | |
| | | <input type="checkbox"/> 19b-4(f)(3) | | <input type="checkbox"/> 19b-4(f)(6) | |
| Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010 Section 806(e)(1) * <input type="checkbox"/> | | | Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934 Section 3C(b)(2) * <input type="checkbox"/> | | |
| Exhibit 2 Sent As Paper Document <input type="checkbox"/> | | | Exhibit 3 Sent As Paper Document <input type="checkbox"/> | | |
| Description Provide a brief description of the action (limit 250 characters, required when Initial is checked *). <div>Proposed Rule Change to Amend FINRA Rule 6730 (Transaction Reporting) to Enhance TRACE Reporting Obligations for U.S. Treasury Securities</div> | | | | | |
| Contact Information Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action. First Name * Robert Last Name * McNamee Title * Associate General Counsel E-mail * robert.mcnamee@finra.org Telephone * (202) 728-8012 Fax (202) 728-8264 | | | | | |
| Signature Pursuant to the requirements of the Securities Exchange of 1934, Financial Industry Regulatory Authority has duty caused this filing to be signed on its behalf by the undersigned thereunto duty authorized. Date 05/23/2022 (Title *) By Racquel Russell Senior Vice President and Director of Capital M (Name *) <div>NOTE: Clicking the signature block at right will initiate digitally signing the form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.</div> <div>Racquel Russell Digitally signed by Racquel Russell Date: 2022.05.23 14:01:08 -04'00'</div> | | | | | |

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EDFS website.

Form 19b-4 Information *

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change *

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 1A - Notice of Proposed Rule Change, Security-Based Swap Submission, or Advanced Notice by Clearing Agencies *

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2- Notices, Written Comments, Transcripts, Other Communications

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FINRA-2022-013 Exhibit 2a.pdf
FINRA-2022-013 Exhibit 2b.docx
FINRA-2022-013 Exhibit 2c.pdf

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

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Exhibit Sent As Paper Document

Exhibit 3 - Form, Report, or Questionnaire

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Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

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Exhibit Sent As Paper Document

Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

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FINRA-2022-013 Exhibit 5.docx

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change

Partial Amendment

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ the Financial Industry Regulatory Authority, Inc. (“FINRA”) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to amend FINRA Rule 6730 to: (i) require members to report electronically executed transactions in U.S. Treasury Securities to FINRA’s Trade Reporting and Compliance Engine (“TRACE”) in the finest increment captured by the system used to execute the transaction, subject to an exception for members with limited trading volume in U.S. Treasury Securities; and (ii) reduce the trade reporting timeframe for transactions in U.S. Treasury Securities to generally require reporting to TRACE as soon as practicable but no later than 60 minutes.

The text of the proposed rule change is attached as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The FINRA Board of Governors authorized the filing of the proposed rule change with the SEC. No other action by FINRA is necessary for the filing of the proposed rule change.

If the Commission approves the proposed rule change, FINRA will announce the effective date of the proposed rule change in a Regulatory Notice. The effective date will be no later than 365 days following publication of the Regulatory Notice announcing Commission approval of the proposed rule change.

¹ 15 U.S.C. 78s(b)(1).

3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(a) Purpose

On July 10, 2017,² FINRA members began reporting information on transactions in U.S. Treasury Securities³ to TRACE.⁴ Information reported to TRACE regarding transactions in U.S. Treasury Securities is used for regulatory and other official sector purposes and is not disseminated publicly.⁵ Among other regulatory uses, FINRA makes the data available to the official sector to assist them in the monitoring and analysis of the U.S. Treasury Security markets.⁶

² See Regulatory Notice 16-39 (October 2016); see also Securities Exchange Act Release No. 79116 (October 18, 2016), 81 FR 73167 (October 24, 2016) (Order Granting Accelerated Approval of File No. SR-FINRA-2016-027).

³ Under Rule 6710(p), a “U.S. Treasury Security” means a security, other than a savings bond, issued by the U.S. Department of the Treasury (the “Treasury Department”) to fund the operations of the federal government or to retire such outstanding securities. The term “U.S. Treasury Security” also includes separate principal and interest components of a U.S. Treasury Security that has been separated pursuant to the Separate Trading of Registered Interest and Principal of Securities (STRIPS) program operated by the Treasury Department.

⁴ TRACE is the FINRA-developed system that facilitates the mandatory reporting of over-the-counter transactions in eligible fixed income securities. See generally Rule 6700 Series.

⁵ On March 10, 2020, FINRA began posting on its website weekly, aggregate data on the trading volume of U.S. Treasury Securities reported to TRACE. See FINRA Press Release, FINRA Launches New Data on Treasury Securities Trading Volume, <https://www.finra.org/media-center/newsreleases/2020/finra-launches-new-data-treasury-securities-trading-volume>; see also Securities Exchange Act Release No. 87837 (December 20, 2019), 84 FR 71986 (December 30, 2019) (Order Approving File No. SR-FINRA-2019-028). Information on individual transactions in U.S. Treasury Securities is not published or disseminated.

⁶ The Treasury Department, the Board of Governors of the Federal Reserve System (the “Federal Reserve”), the Federal Reserve Bank of New York, the SEC and the

Since members began reporting U.S. Treasury Security transaction information to TRACE,⁷ FINRA has continued to study the data and, in consultation with the Treasury Department, consider potential ways to enhance the quality and availability of the data for FINRA and the official sector. FINRA is now proposing two changes to its TRACE reporting rules to enhance the regulatory audit trail and require members to report transactions in U.S. Treasury Securities to FINRA in a more timely manner. The first proposed change would require members to report electronically executed transactions in U.S. Treasury Securities to TRACE in the finest increment captured by the system that executed the transaction, as discussed below. FINRA is proposing to provide an exception from the amended execution timestamp provision for members with limited trading volume in U.S. Treasury Securities. The second proposed change would reduce the reporting timeframe for transactions in U.S Treasury Securities, as discussed further below.

Execution Timestamps

Existing Supplementary Material .04 to Rule 6730 provides that, when reporting transactions in U.S. Treasury Securities executed electronically to TRACE, members

U.S. Commodity Futures Trading Commission comprise the Inter-Agency Working Group for Treasury Market Surveillance (IAWG or “official sector”).

⁷ Currently, the TRACE reporting requirements apply only to FINRA members. However, FINRA notes that the Federal Reserve has approved a rule change that will require certain non-FINRA member banks to begin reporting information on transactions in specified fixed income securities, including U.S. Treasury Securities, to TRACE. See Agency Information Collection Activities: Announcement of Board Approval Under Delegated Authority and Submission to OMB, 86 FR 59716 (October 28, 2021) (Federal Reserve approval to implement the Treasury Securities and Agency Debt and Mortgage-Backed Securities Reporting Requirements (FR 2956; OMB No. 7100–NEW)).

must report the Time of Execution⁸ pursuant to paragraph (c)(8) of Rule 6730 to the finest increment of time captured by the member's system (*e.g.*, millisecond, microsecond), but at a minimum, in increments of seconds.⁹ The "member's system" referenced in the existing rule refers to the system that is used to report the transaction to TRACE (*i.e.*, the member's "reporting system"). Under the existing rule and related guidance, if a member uses multiple systems to facilitate trade reporting and those systems differ in granularity, then the member may use the finest increment that is common across all systems.¹⁰ As a result, currently members may use a reporting system

⁸ Under Rule 6710(d), the "Time of Execution" generally means the time when the parties to a transaction agree to all of the terms of the transaction that are sufficient to calculate the dollar price of the trade.

⁹ Existing Supplementary Material .04 provides that a member must report "at a minimum, in increment of seconds." As discussed below, to avoid confusion, the proposed amendments update this language to clarify that members must report trades in an increment of "no longer than a second" and no shorter than a microsecond. TRACE currently cannot accept a Time of Execution in an increment that is finer than a microsecond. The proposed rule change would also make a non-substantive edit to Supplementary Material .04 to capitalize the defined term "Time of Execution."

¹⁰ Specifically, TRACE Treasury FAQ #3.5.8 provides as follows:

Question: Our firm will use two separate systems to facilitate trade reporting of U.S. Treasury Securities for different business lines. One system ("System A") has the capability to capture the time of execution to the millisecond; however, the second system ("System B") will only capture the time of execution to the second. Will our firm be required to update System B to capture the time of execution to the millisecond?

Answer: No. The rule requires members to report the time of electronic executions to the finest increment of time captured in the member's system (*e.g.*, millisecond, microsecond), but at a minimum, in increments of seconds. Since the firm would be reporting the time of execution to the finest increment captured by each system, the firm would not need to make any updates to System B to comply with a finer time increment.

to report a trade to TRACE in an increment of time that is less precise than that captured by the system that is used to execute the transaction (i.e., the “execution system”).¹¹

To improve the granularity and consistency of transaction information for U.S. Treasury Securities, FINRA is proposing to amend Supplementary Material .04 to Rule 6730 to instead provide that, when reporting transactions in U.S. Treasury Securities executed electronically, members must report the Time of Execution pursuant to paragraph (c)(8) of Rule 6730 to the finest increment of time captured by the execution system (e.g., millisecond, microsecond), but reporting must be in an increment of (i) no longer than a second and (ii) no shorter than a microsecond. Amended Supplementary Material .04 would not require members to update execution systems for U.S. Treasury Securities—instead members must update their reporting systems, if necessary, to ensure that their TRACE reports reflect the finest increment of time captured by the execution system (but not finer than a microsecond).¹² Therefore, a member may be required to

¹¹ For purposes of Supplementary Material .04, FINRA would consider the relevant execution system to be the system used to execute the particular U.S. Treasury Security transaction being reported to TRACE, regardless of whether the member is using its own internal systems for execution or if the transaction is executed through an external system. For example, if a member executes a transaction in a U.S. Treasury Security through an alternative trading system (“ATS”) or other electronic trading platform, the member would be required to report in the finest increment of time captured by such ATS or electronic trading platform (but no finer than a microsecond, in line with TRACE system parameters).

¹² The TRACE system does not accept trade reports in increments finer than a microsecond. Where a firm captures time in a finer increment, the firm must truncate the time when reporting the transaction to TRACE. Specifically, TRACE FAQ #3.5.37 provides as follows:

Question: Is rounding permitted when reporting the Time of Execution of a U.S. Treasury Security transaction to TRACE?

update its reporting system for U.S. Treasury Securities if such reporting system does not currently report to TRACE to the same level of granularity as the execution system.¹³

For example, if the execution system captures time in milliseconds but the reporting system for U.S. Treasury Security transactions reports the Time of Execution in seconds, the member would be required to update its reporting system to report the Time of Execution in milliseconds. Similarly, if a member's reporting system reports transactions in U.S. Treasury Securities in milliseconds but the member executes trades on an ATS that captures the execution times in microseconds, the member would be required to update its reporting system to report the Time of Execution in microseconds. FINRA believes the proposed change would result in FINRA and the official sector receiving more precise information with respect to the Time of Execution of transactions in U.S. Treasury Securities, which would assist with trade matching and sequencing for U.S. Treasury Securities.

FINRA is, however, proposing to add new Supplementary Material .07 to Rule 6730 to provide a limited exception for members with limited trading volume in U.S. Treasury Securities from the proposed requirement to report electronically executed transactions in U.S. Treasury Securities to the finest increment of time captured by the

Answer: No. Members must accurately report a transaction's Time of Execution and are not permitted to round when reporting to TRACE. The TRACE system can accommodate reporting up to the microsecond and, where the firm captures time in an increment finer than microseconds, the firm must truncate when reporting to TRACE.

¹³ See supra note 11. In connection with the proposed rule change, FINRA would also amend its existing TRACE FAQs to clarify that a member must report using the finest increment of time captured by the execution system, and therefore may need to update other systems to enable trade reporting using the execution system's level of timestamp granularity.

execution system.¹⁴ The proposed Supplementary Material would define a “member with limited trading volume in U.S. Treasury Securities” as a member that executed transactions in U.S. Treasury Securities of \$10 million or less in average daily par value, computed by aggregating buy and sell transactions, during the preceding calendar year. Where a member’s activity is below the proposed criteria during the preceding calendar year, such member would not be required to report transactions in U.S. Treasury Securities in the finest increment captured by the execution system and would be permitted to continue to report the Time of Execution for transactions in U.S. Treasury Securities executed electronically as it does today for the duration of the following calendar year.

Under the proposed rule change, a member that relies on the exception for limited trading volume would be required to confirm on an annual basis that it continues to meet the criteria for the exception based on its trading activity during the preceding calendar year. Where a member no longer meets the criteria for the exception based on its trading activity during a given preceding calendar year, the member may no longer rely on the exception beginning 90 days after the end of such calendar year, which FINRA believes

¹⁴ The proposed rule change would also make non-substantive, conforming edits to the Supplementary Material to Rule 6730. Specifically, existing Supplementary Material .06 to Rule 6730 provided a temporary exception for aggregate transaction reporting of U.S. Treasury Securities executed in ATS trading sessions. By its terms, that temporary exception expired on April 12, 2019. Therefore, FINRA is proposing to delete the temporary exception under existing Supplementary Material .06, renumber existing Supplementary Material .07 (ATS Identification of Non-FINRA Member Counterparties for Transactions in U.S. Treasury Securities) as Supplementary Material .06 and add the new exception for members with limited trading volume in U.S. Treasury Securities as new Supplementary Material .07.

would provide such members with a sufficient amount of time to make any systems changes that may be needed to comply with the amended timestamp requirement.¹⁵

As discussed further below in the Economic Impact Assessment, FINRA believes that providing an exception from the amended execution timestamp requirement is appropriate as it would apply the enhanced obligations under the rule and associated burdens to the members that engage in substantial trading activity in U.S. Treasury Securities (based on the \$10 million average daily par value traded threshold).

Reporting Timeframe Reduction

Under existing Rule 6730(a)(4)(A), transactions in U.S. Treasury Securities executed on a business day at or after 12:00:00 a.m. Eastern Time through 5:00:00 p.m. Eastern Time must be reported the same day during TRACE System Hours, *i.e.*, 8:00:00 a.m. Eastern Time through 6:29:59 p.m. Eastern Time.¹⁶ A transaction executed on a business day after 5:00:00 p.m. Eastern Time but before the TRACE system closes can be reported the same day before the TRACE system closes, but must be reported no later than the next business day (T+1) during TRACE System Hours, *i.e.*, 8:00:00 a.m. Eastern Time through 6:29:59 p.m. Eastern Time, and, if reported on T+1, designated “as/of” and

¹⁵ Under the proposed rule change, once a member’s activity falls outside of the scope of the proposed criteria based on its trading activity during a given preceding calendar year, such member generally may no longer rely on the exception beginning 90 days after the end of such calendar year, irrespective of whether it again meets the criteria in a subsequent calendar year. However, a member may consult with FINRA staff regarding the availability of the exception where the member has changed business lines or undergone a corporate restructuring that significantly impacts its level of activity in U.S. Treasury Securities.

¹⁶ Under Rule 6710(t), “TRACE System Hours” means the hours the TRACE system is open, which are 8:00:00 a.m. Eastern Time through 6:29:59 p.m. Eastern Time on a business day, unless otherwise announced by FINRA.

include the date of execution. Finally, a transaction executed on a business day at or after 6:30:00 p.m. Eastern Time through 11:59:59 p.m. Eastern Time (or a Saturday, a Sunday, a federal or religious holiday or other day on which the TRACE system is not open at any time during that day) must be reported the next business day (T+1) during TRACE System Hours, i.e., 8:00:00 a.m. Eastern Time through 6:29:59 p.m. Eastern Time, designated “as/of,” and include the date of execution.

To provide more timely information about transactions in U.S. Treasury Securities, FINRA is proposing to amend Rule 6730(a)(4) to reduce the trade reporting timeframe as follows.¹⁷ Amended Rule 6730(a)(4) would provide that transactions in U.S. Treasury Securities must be reported as soon as practicable, but no later than the following time periods.¹⁸ Amended Rule 6730(a)(4)(A) would require that a transaction

¹⁷ FINRA is not proposing to provide an exception for members with limited trading activity in U.S. Treasury Securities from the proposed reduced reporting timeframe requirement.

¹⁸ In connection with the proposed changes to Rule 6730(a)(4) discussed above, the proposed rule change would also make conforming changes to Supplementary Material .03 to Rule 6730, which sets forth standards for firms reporting transactions “as soon as practicable” after the Time of Execution in accordance with Rule 6730(a). Existing Rule 6730.03 provides that “[e]ach member with a trade reporting obligation pursuant to paragraph (a) above for a TRACE-Eligible Security that is subject to dissemination must adopt policies and procedures reasonably designed to comply with the requirement that transactions in TRACE-Eligible Securities be reported ‘as soon as practicable’ by implementing systems that commence the trade reporting process at the Time of Execution without delay.” Under the proposed rule change, the “as soon as practicable” standard would also apply to transactions in U.S. Treasury Securities, which are not subject to dissemination. Therefore, FINRA is proposing to update the first sentence of Rule 6730.03 to provide that “[e]ach member with an obligation to report a transaction in a TRACE-Eligible Security ‘as soon as practicable’ pursuant to paragraph (a) of this Rule must adopt policies and procedures reasonably designed to comply with this requirement by implementing systems that commence the trade reporting process at the Time of Execution without delay.”

executed on a business day at or after 12:00:00 a.m. Eastern Time through 7:59:59 a.m. Eastern Time must be reported the same day no later than 60 minutes after the TRACE system opens. A transaction executed on a business day at or after the time the TRACE system opens at 8:00:00 a.m. Eastern Time through when the TRACE system closes at 6:29:59 p.m. Eastern Time (standard TRACE System Hours) must be reported within 60 minutes of the Time of Execution, except that a transaction executed on a business day less than 60 minutes before 6:30:00 p.m. Eastern Time can be reported the same day before the TRACE system closes, but must be reported no later than 60 minutes after the TRACE system opens the next business day (T+1), and if reported on T + 1, designated “as/of” and include the date of execution. Finally, a transaction executed on a business day at or after 6:30:00 p.m. Eastern Time through 11:59:59 p.m. Eastern Time, or a Saturday, a Sunday, a federal or religious holiday or other day on which the TRACE system is not open at any time during that day (determined using Eastern Time) must be reported the next business day (T+1) no later than 60 minutes after the TRACE system opens, designated “as/of,” and include the date of execution.

FINRA believes the proposal to require that members report transactions in U.S. Treasury Securities to TRACE as soon as practicable, but no later than within 60 minutes of the Time of Execution (or within 60 minutes after the TRACE system opens for trades executed during specified periods, as described above) is a beneficial next step towards providing FINRA and the official sector with more timely information about activity in the U.S. Treasury Security markets than the current reporting timeframe, including more timely data about intraday pricing and liquidity. As discussed further in the Economic Impact Assessment, FINRA also notes that members already report over 90 percent of

transactions in U.S. Treasury Securities within 60 minutes of the Time of Execution. FINRA will continue to consider whether further reducing the reporting timeframe for U.S. Treasury Securities may be beneficial.

As noted in Item 2 of this filing, if the Commission approves the proposed rule change, FINRA will announce the effective date of the proposed rule change in a Regulatory Notice. The effective date will be no later than 365 days following publication of the Regulatory Notice announcing Commission approval of the proposed rule change.

(b) Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,¹⁹ which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest.

FINRA believes that the proposed rule change to align the granularity of the Time of Execution provided in TRACE reports with the granularity of timestamps in the system used to execute transactions in U.S. Treasury Securities will enhance the regulatory audit trail for U.S. Treasury Securities available to FINRA and the official sector by facilitating more efficient matching and sequencing of transactions in the audit trail data. FINRA also believes that providing an exception from the amended execution timestamp requirement for members with limited trading volume in U.S. Treasury Securities will reduce burdens for members with limited activity while continuing to

¹⁹ 15 U.S.C. 78o-3(b)(6).

ensure that FINRA and the official sector receives valuable audit trail information for U.S. Treasury Security trades. FINRA further believes that requiring members to report transactions in U.S. Treasury Securities to TRACE in a more timely manner will improve the availability to regulators of information regarding transactions in the U.S. Treasury Security markets, including more timely data about intraday pricing and liquidity.

4. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

Economic Impact Assessment

FINRA has undertaken an economic impact assessment, as set forth below, to further analyze the regulatory need for the proposed rule change, its potential economic impacts, including anticipated costs, benefits, and distributional and competitive effects, relative to the current baseline, and the alternatives FINRA considered in assessing how best to meet its regulatory objective.

Regulatory Need

Under the existing rule, members may report a trade to TRACE in an increment of time that is less precise than that captured by the execution system, which makes it difficult to match interdealer trades when two sides report at different time granularity because coarse granularity in timestamps makes sequencing trades less precise. To address this, the proposed amendment requires that, when reporting transactions in U.S. Treasury Securities executed electronically, members must report the Time of Execution

to the finest increment of time captured by the execution system, but must report in an increment of time that is no longer than a second and no shorter than a microsecond.

Under the existing rule, a transaction executed on a business day at or after 12:00:00 a.m. Eastern Time through 5:00:00 p.m. Eastern Time must be reported the same day during TRACE System Hours, while a transaction executed after 5:00:00 p.m. Eastern Time but before the TRACE system closes must be reported no later than the next business day (T+1) during TRACE System Hours. A transaction executed on a business day at or after 6:30:00 p.m. Eastern Time through 11:59:59 p.m. Eastern time or on a non-business day must be reported the next business day (T+1) during TRACE System Hours. To improve the timeliness of the information reported to TRACE, the proposed amendment will require transactions in U.S. Treasury Securities to be reported as soon as practicable, but no later than 60 minutes from the Time of Execution (or within 60 minutes after the TRACE system opens for trades executed during specified periods), which would provide more timely information to regulators.

Economic Baseline

The economic baseline of the proposed rule change is the existing TRACE U.S. Treasury Security reporting requirements, and member firms trading activities in these securities. FINRA has analyzed TRACE U.S. Treasury Security transaction reports during the sample period of July 2020 to June 2021 by 729 members and 21 ATSS,²⁰ during which there were approximately 336,612 transaction reports on average reported

²⁰ In selecting a sample period, FINRA also analyzed trade reports during the 2020 calendar year, which includes the March 2020 stress period, and found no significant difference in the statistics over the 2020 calendar year as compared to the statistics over the July 2020 to June 2021 period.

to TRACE per day.²¹ ATSs collectively accounted for 58.8 percent of these reports.

Among the top 10 TRACE reporters for U.S. Treasury Securities, five are ATSs and five are non-ATS FINRA members. The top 10 reporters collectively represented 71.8 percent of all TRACE U.S. Treasury Security reports, and the five ATSs accounted for 57.8 percent of the total. On average, there were 667 FINRA members that reported fewer than 100 transactions per day for the days on which they reported transactions in U.S. Treasury Securities.

During the sample period, 253 unique MPIDs reported transactions in U.S. Treasury Securities executed on or through an ATS to TRACE.²² Of the 253 MPIDs, 173 MPIDs reported transactions in seconds and 80 MPIDs reported transactions in milliseconds or finer. Fifty-nine of the 173 reporters which reported in seconds had no more than \$10 million in average daily par value traded. Thirty-four of the 80 reporters which reported in milliseconds or finer had no more than \$10 million in average daily par value traded. There were approximately 70.2 million ATS transactions reported in the sample period across all 253 MPIDs. Most of these transactions (72.7 percent) were reported in milliseconds or finer.

Furthermore, for the sample period reviewed, FINRA analysis found that for transactions executed on business days between 8:00 a.m. and 5:00 p.m., members

²¹ The analysis considers all transaction reports for the purpose of the rule, and thus differs from the weekly aggregated statistics published by FINRA, which adjusts for multiple reporting of trades where a trade involves an ATS or both sides are FINRA members. See supra note 5.

²² FINRA has analyzed the number of transactions executed on or through an ATS because these are a readily identifiable subset of all electronically executed transactions.

reported 96.5 percent of transactions within 60 minutes of the Time of Execution. Of the 749 MPIDs (either member firm or ATS) that reported transactions, 281 MPIDs always reported transactions within 60 minutes and 12 MPIDs always reported transactions more than 60 minutes after the execution. The remaining 456 MPIDs reported transactions both within 60 minutes and after 60 minutes of execution, of which 96.5 percent were reported within 60 minutes of execution. FINRA also observed that of the transactions that were executed from 5:00 p.m. through 7:59:59 a.m. the next business day or on non-business days by 318 MPIDs, 95.5 percent of these transactions were reported within 60 minutes after the TRACE system opened. Of the 318 MPIDs, 109 always reported within 60 minutes after the TRACE system opened. Of the 318 MPIDs, 193 reported both within and after 60 minutes after the TRACE system opened.

Economic Impacts

As discussed above, FINRA is proposing two enhancements to improve the quality and timeliness of the information reported to TRACE for transactions in U.S. Treasury Securities. The enhancements will result in benefits, including facilitating market oversight and providing FINRA and the official sector with valuable insight into U.S. Treasury Security transactions, thereby benefiting the markets and market participants, and strengthening investor protection.

FINRA recognizes that the proposed enhancements may result in costs for members that trade U.S. Treasury Securities where members must implement changes to their processes and systems for reporting U.S. Treasury Securities transactions to TRACE.

The proposed rule change may affect competition between member firms with reporting obligations and non-members engaging in U.S. Treasury Security trades. Such competitive impact could result from the extent to which members pass costs resulting from the reporting requirement to customers, either fully or partially. Customers may thus choose to trade using non-members who do not have TRACE reporting obligations. However, such substitutability would depend on, among other things, whether sufficient liquidity exists with these non-reporting firms, and regulatory or practical limitations on where customers and institutions may trade. In addition, search and other costs may further impose a burden on customers that may limit such potential substitution. Substitution may also be limited where other regulators impose TRACE reporting requirements that align with the proposed rule change, for example when the Federal Reserve implements TRACE reporting for U.S. Treasury Securities for banks.²³ The proposed rule change may also affect competition among reporting firms, where firms reporting only a limited number of trades may face the same costs of upgrading their systems and therefore find their limited trading in U.S. Treasury Securities less viable. The impact on such firms is expected to be mitigated as a result of the proposed exception for eligible members in connection with the proposed timestamp granularity provision, as described above.

Execution Timestamps

As discussed above, FINRA is proposing to require members to report electronically executed transactions in U.S. Treasury Securities in the finest increment of time as that captured by the execution system, but must report in an increment of time

²³ See supra note 7.

that is no longer than a second and no shorter than a microsecond. Finer time granularity in the audit trail will assist with trade matching and sequencing by allowing transactions to be matched more accurately and sequenced with more granularity. This facilitates market oversight by providing FINRA and the official sector with more information on U.S. Treasury Security transactions. It will result in costs for members that need to implement changes to their processes and systems.

FINRA is proposing an exception from the timestamp granularity requirement for members that engage in limited activity in U.S. Treasury Securities—specifically, members that executed transactions in U.S. Treasury Securities of no more than \$10 million in average daily par value traded (computed by aggregating buy and sell transactions over the prior calendar year). The \$10 million threshold would provide relief for firms with limited activity (and for which the technological changes required may be more significant compared to their level of activity in this space) while continuing to ensure that FINRA receives valuable audit trail information for U.S. Treasury Security trades. Based on 2020 data which is the full calendar year members' activity will be measured, the proposed threshold would provide relief to 485 firms that, in the aggregate, accounted for 0.11% of the total par value traded.

Reporting Timeframe Reduction

As discussed above, FINRA is proposing to reduce the timeframe for reporting transactions in U.S. Treasury Securities to TRACE to generally require reporting as soon as practicable but no later than within 60 minutes of the Time of Execution (or within 60 minutes after the TRACE system opens for trades executed during specified periods). This facilitates market oversight by providing FINRA and the official sector with more

timely information on U.S. Treasury Security transactions. It will result in costs for members that need to implement changes to their processes and systems. As discussed in the baseline, members reported approximately 96 percent of transactions within 60 minutes of the Time of Execution.

Some members who trade in U.S. Treasury Securities also trade in other types of TRACE-Eligible Securities that already require reporting in a shorter timeframe. For example, transactions in corporate bonds and Agency Debt Securities²⁴ generally are required to be reported to FINRA as soon as practicable, but no later than within 15 minutes of the Time of Execution. In the sample period, of the 750 MPIDs that reported transactions in U.S. Treasury Securities, 691 MPIDs also reported transactions in corporate bonds and Agency Debt Securities. While these transactions may occur on separate trading desks, to the extent that members are able to leverage existing technology within the firm, the costs associated with the proposed reporting timeframe changes for U.S. Treasury Securities could potentially be reduced.

Alternatives Considered

FINRA considered several alternatives to the \$10 million threshold for the exception from the timestamp granularity requirement. First, FINRA considered basing

²⁴ Under Rule 6710(l), an “Agency Debt Security” means a debt security (i) issued or guaranteed by an Agency; (ii) issued or guaranteed by a Government-Sponsored Enterprise; or (iii) issued by a trust or other entity that was established or sponsored by a Government-Sponsored Enterprise for the purpose of issuing debt securities, where such enterprise provides collateral to the trust or other entity or retains a material net economic interest in the reference tranches associated with the securities issued by the trust or other entity. The term excludes a U.S. Treasury Security and a Securitized Product, where an Agency or a Government-Sponsored Enterprise is the Securitizer (or similar person), or the guarantor of the Securitized Product.

the relief on the number of trades reported rather than the par value traded. Based on its analysis, FINRA believes that average daily par value traded is a more appropriate measurement; specifically, some firms with fewer than 100 trades on average per day still had significant average trading volume. FINRA also considered basing the relief on different levels of trading activity, up to an average daily par value traded of \$100 million (which is the threshold used by the Federal Reserve for bank reporting).²⁵ FINRA determined that a \$100 million threshold would result in the loss of valuable audit trail information for members that trade significant U.S. Treasury Security volumes. FINRA also analyzed firms at or below a \$50 million threshold, a \$20 million threshold, and \$15 million threshold and determined in each case that these thresholds were too high for purposes of the proposed exception and would result in the loss of valuable audit trail information. On balance, FINRA believes that the firms within scope of the proposed execution timestamp enhancement, using the proposed \$10 million threshold, are active participants in the U.S. Treasury Security space and should be required to implement the U.S. Treasury Security reporting changes; therefore, this threshold would ensure that FINRA receives valuable audit trail information for U.S. Treasury Security trades from more active firms.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The proposed rule change was published for comment in Regulatory Notice 20-43 (December 2020). Nine comments were received in response to the Regulatory Notice. A copy of the Regulatory Notice is attached as Exhibit 2a. A list of the comment letters

²⁵ See supra note 7.

received in response to the Regulatory Notice is attached as Exhibit 2b.²⁶ Copies of the comment letters received in response to the Regulatory Notice are attached as Exhibit 2c. The comments received in response to the Regulatory Notice that relate to the instant proposal are summarized below.²⁷

Execution Timestamps

Comments regarding the proposed execution timestamp requirement were mixed. Citadel supported the proposal to increase the granularity of execution timestamps to match execution systems.²⁸ EA supported normalizing the Time of Execution information received and the general language proposed in the Regulatory Notice, but stated that it should be revised to indicate best and worst boundaries, i.e., the worst being one second and the best one microsecond as currently supported by the TRACE facility.²⁹ As discussed above, the proposed rule change would clarify that the Time of Execution must be reported in an increment of no longer than a second and no shorter than a microsecond.

FIF did not support increasing the granularity of execution timestamps to match execution systems, stating that the proposal would require significant system changes to match the granularity of internal and third-party execution systems, and requested that

²⁶ All references to commenters are to the comment letters as listed in Exhibit 2b.

²⁷ FINRA notes that Regulatory Notice 20-43 solicited comment on a number of potential enhancements to TRACE reporting for U.S. Treasury Securities, including items that are not being proposed in the instant filing. Thus, Item 5 of this filing is limited to a discussion of comments received in response to the Regulatory Notice that relate to the items being proposed herein.

²⁸ See Citadel at 4.

²⁹ See EA at 1-2.

FINRA provide additional insight into the objective of the proposal.³⁰ SIFMA also generally did not support increasing the granularity of execution timestamps, stated that the proposal would present technological complexities, and asked that FINRA provide additional information regarding the objectives of the proposal so that execution time information can be structured in a way that reflects the complexities of market practice, firm systems, and interactions among market participants.³¹ SIFMA further stated that, while some firms already provide information at this level of granularity, it is not standard across firms, and that using the most granular time component within any element of larger systems would create substantial operational challenges. In addition, SIFMA noted that it is likely that firms receive timestamps at differing increments across venues (or potentially even products), and therefore it would not be an easy or straightforward undertaking to create the level of uniformity required by the proposal.

As discussed above, FINRA acknowledges that some members may need to make operational and technological changes to comply with the amended timestamp requirement. However, FINRA continues to believe that the benefits to the regulatory audit trail of aligning the timestamps reported to TRACE with those captured by the relevant execution system are appropriate. In particular, requiring firms to align the reporting system timestamp granularity to the level of granularity used in the execution system would result in more precise information with respect to the Time of Execution of transactions in U.S. Treasury Securities that would be available to FINRA and the official sector, which would assist with trade matching and sequencing for U.S. Treasury

³⁰ See FIF at 5-6.

³¹ See SIFMA at 4-5.

Securities. FINRA also notes that the proposed timestamp requirement would provide an exception for members with limited trading activity, which is intended to provide relief for firms with limited activity in the U.S. Treasury Security markets from making the operational and technological changes that may be needed to update their systems to comply with the new requirements.

SIFMA raised concerns regarding the proposed requirement for transactions that are “executed electronically,” and stated that it is unclear which transactions would be within scope of the proposal, and further stated that creating a different standard for voice versus electronic trades would create confusion. SIFMA also asserted that it would be most effective from a technological perspective to apply the same timestamp standards across all TRACE-Eligible Securities, such that timestamp granularity for U.S. Treasury Securities would be informed by the limitations and structural constraints that shape reporting timestamps for other TRACE-Eligible Securities.

With respect to commenter concerns regarding members’ ability to accurately identify transactions that are “executed electronically” and the impact of establishing different standards for voice versus electronic trades, FINRA notes that the existing timestamp granularity provision for U.S. Treasury Securities in Rule 6730.04 specifically applies to transactions that are “executed electronically,” and FINRA is not aware that there has been confusion regarding the scope of the current requirement that has resulted in compliance concerns for members. To the extent that members encounter interpretive questions, FINRA will work with the industry to provide guidance, as appropriate, with respect to the proposed amendments.

FINRA appreciates commenter concerns regarding requiring a different timestamp granularity standard for U.S. Treasury Securities than for other TRACE-Eligible Securities. FINRA notes that, to the extent preferable, members may choose to make the systems changes required under the proposal for reporting all TRACE-Eligible Securities in the same increment as captured by the execution system used to execute the transaction (to the extent this is preferable to making the change solely for U.S. Treasury Securities). FINRA also notes that the proposal would not require that trades executed electronically be captured by execution systems in increments finer than a second; however, to the extent that the execution system uses a finer increment, the proposal would require that TRACE reports also reflect such finer increment (but no finer than a microsecond, in line with TRACE system parameters).

Reporting Timeframe Reduction

Comments regarding reducing the reporting timeframe for U.S. Treasury Securities were generally supportive. EA supported the proposed 60-minute reporting timeframe, noting that it already reports transactions within this timeframe. EA stated that the 60-minute requirement would be a significant step forward while still allowing members sufficient time between execution and reporting to resolve any system issues.³² FIA PTG stated that there was no justification for the lengthy reporting window that exists today in light of the prevalence of electronic trading in this market.³³ As such, FIA PTG stated that, at a minimum, it supported the proposed reduction to a 60-minute timeframe, but would generally recommend further reducing the reporting timeframe to

³² See EA at 2.

³³ See FIA PTG at 1.

no greater than 15 minutes, congruent with current reporting requirements for corporate bonds. Additionally, with respect to on-the-run U.S. Treasury Securities, FIA PTG recommended a 10-second reporting window to mirror U.S. equity markets, given the liquidity profile of the market for on-the-run U.S. Treasury Securities.

Similarly, both Citadel and MFA supported the proposed reporting timeframe reduction, but both recommended further reducing the period to 15 minutes to harmonize reporting with corporate bonds.³⁴ Citadel agreed that the proposed reduction would provide the official sector with access to more timely data regarding intraday pricing and liquidity dynamics. Citadel argued that market participants should be well-situated to comply with a 15-minute timeframe for U.S. Treasury Securities, noting that members already report approximately 95% of U.S. Treasury Security transactions within an hour after execution, despite not being required to report until end-of-day. Citadel further stated that harmonizing reporting timeframes is warranted given the ongoing consideration of whether to publicly report secondary market U.S. Treasury Security transactions, as public dissemination would require trading activity to be reported to FINRA as soon as possible following execution. MFA also argued that regulators should have the same timely data with respect to the U.S. Treasury Securities as they do for corporate bonds, noting that timely data is critical for regulators to perform their supervisory functions, especially in times of extreme market volatility.

FIF stated that its members generally do not object to a reduction in the reporting timeframe. FIF stated that some members recommend a two-hour timeframe rather than the proposed 60-minute timeframe, while other FIF members recommend a shorter

³⁴ See Citadel at 1-2; MFA at 2.

timeframe that is harmonized with requirements in other asset classes (i.e., 15 minutes for corporate bonds).³⁵ SIFMA noted that, although shortening the reporting timeframe would be a substantial change, its members feel that some shortening of the reporting timeframe would be feasible for firm systems, provided that any change includes sufficient time for implementation and testing.³⁶ However, SIFMA recommends moving to a reporting timeframe of, at most, two hours, rather than the proposed 60-minute timeframe. SIFMA noted that operational challenges would be inherent in moving from the current reporting timeframe to the proposed 60 minute-timeframe, including the impact of transmitting more data through systems on an intraday basis, as well as the potential for increased late reports, cancels and corrections. SIFMA also stated that the reporting timeframe should reflect the unique operational and market responsibilities of firms active in the U.S. Treasury Security market, noting for example that primary dealers have responsibilities to support auctions and open market activity, such that a wider reporting window would provide more flexibility to meet firms' other time-sensitive requirements.

FINRA continues to believe that requiring members to report as soon as practicable, but no later than 60 minutes from the Time of Execution is appropriate for U.S. Treasury Securities. The proposed reporting timeframe would provide FINRA and the official sector with more timely data regarding U.S. Treasury Security transactions, which will significantly increase the ability of regulators to monitor intraday pricing and liquidity information in the U.S. Treasury Security markets. FINRA does not agree that a

³⁵ See FIF at 6.

³⁶ See SIFMA at 5-6.

longer outer limit reporting timeframe than 60 minutes—e.g., two hours—would be appropriate, as it would reduce the timeliness of intraday data available to FINRA and the official sector. FINRA does not believe that the operational challenges of reporting within 60 minutes would be significantly greater than reporting within two hours. As discussed above in the Economic Impact Assessment, FINRA notes that members already report over 90 percent of transactions in U.S. Treasury Securities within 60 minutes of the Time of Execution. FINRA also does not believe that establishing an outer limit of 15 minutes or 10 seconds is appropriate. As noted above, individual transaction information for U.S. Treasury Securities is not publicly disseminated, and therefore the shorter timeframes that generally apply to disseminated transactions are not necessary for U.S. Treasury Securities. Thus, FINRA continues to believe that requiring members to report as soon as practicable, but no later than 60 minutes from the Time of Execution is appropriate for U.S. Treasury Securities as it would provide more timely information for regulatory use while balancing concerns regarding the burdens that would be imposed on reporting members.

6. Extension of Time Period for Commission Action

FINRA does not consent at this time to an extension of the time period for Commission action specified in Section 19(b)(2) of the Act.³⁷

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2) or Section 19(b)(7)(D)

Not applicable.

³⁷ 15 U.S.C. 78s(b)(2).

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

Not applicable.

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

11. Exhibits

Exhibit 1. Completed notice of proposed rule change for publication in the Federal Register.

Exhibit 2a. Regulatory Notice 20-43 (December 2020).

Exhibit 2b. List of Commenters to Regulatory Notice 20-43.

Exhibit 2c. Copy of Comment Letters received in response to Regulatory Notice 20-43.

Exhibit 5. Text of the proposed rule change.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-FINRA-2022-013)

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change to Amend FINRA Rule 6730 (Transaction Reporting) to Enhance TRACE Reporting Obligations for U.S. Treasury Securities

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on , the Financial Industry Regulatory Authority, Inc. (“FINRA”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by FINRA. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

FINRA is proposing to amend FINRA Rule 6730 to: (i) require members to report electronically executed transactions in U.S. Treasury Securities to FINRA’s Trade Reporting and Compliance Engine (“TRACE”) in the finest increment captured by the system used to execute the transaction, subject to an exception for members with limited trading volume in U.S. Treasury Securities; and (ii) reduce the trade reporting timeframe for transactions in U.S. Treasury Securities to generally require reporting to TRACE as soon as practicable but no later than 60 minutes.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

The text of the proposed rule change is available on FINRA's website at <http://www.finra.org>, at the principal office of FINRA and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, FINRA included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. FINRA has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

On July 10, 2017,³ FINRA members began reporting information on transactions in U.S. Treasury Securities⁴ to TRACE.⁵ Information reported to TRACE regarding transactions in U.S. Treasury Securities is used for regulatory and other official sector

³ See Regulatory Notice 16-39 (October 2016); see also Securities Exchange Act Release No. 79116 (October 18, 2016), 81 FR 73167 (October 24, 2016) (Order Granting Accelerated Approval of File No. SR-FINRA-2016-027).

⁴ Under Rule 6710(p), a "U.S. Treasury Security" means a security, other than a savings bond, issued by the U.S. Department of the Treasury (the "Treasury Department") to fund the operations of the federal government or to retire such outstanding securities. The term "U.S. Treasury Security" also includes separate principal and interest components of a U.S. Treasury Security that has been separated pursuant to the Separate Trading of Registered Interest and Principal of Securities (STRIPS) program operated by the Treasury Department.

⁵ TRACE is the FINRA-developed system that facilitates the mandatory reporting of over-the-counter transactions in eligible fixed income securities. See generally Rule 6700 Series.

purposes and is not disseminated publicly.⁶ Among other regulatory uses, FINRA makes the data available to the official sector to assist them in the monitoring and analysis of the U.S. Treasury Security markets.⁷

Since members began reporting U.S. Treasury Security transaction information to TRACE,⁸ FINRA has continued to study the data and, in consultation with the Treasury Department, consider potential ways to enhance the quality and availability of the data for FINRA and the official sector. FINRA is now proposing two changes to its TRACE reporting rules to enhance the regulatory audit trail and require members to report transactions in U.S. Treasury Securities to FINRA in a more timely manner. The first proposed change would require members to report electronically executed transactions in U.S. Treasury Securities to TRACE in the finest increment captured by the system that

⁶ On March 10, 2020, FINRA began posting on its website weekly, aggregate data on the trading volume of U.S. Treasury Securities reported to TRACE. See FINRA Press Release, FINRA Launches New Data on Treasury Securities Trading Volume, <https://www.finra.org/media-center/newsreleases/2020/finra-launches-new-data-treasury-securities-trading-volume>; see also Securities Exchange Act Release No. 87837 (December 20, 2019), 84 FR 71986 (December 30, 2019) (Order Approving File No. SR-FINRA-2019-028). Information on individual transactions in U.S. Treasury Securities is not published or disseminated.

⁷ The Treasury Department, the Board of Governors of the Federal Reserve System (the “Federal Reserve”), the Federal Reserve Bank of New York, the SEC and the U.S. Commodity Futures Trading Commission comprise the Inter-Agency Working Group for Treasury Market Surveillance (IAWG or “official sector”).

⁸ Currently, the TRACE reporting requirements apply only to FINRA members. However, FINRA notes that the Federal Reserve has approved a rule change that will require certain non-FINRA member banks to begin reporting information on transactions in specified fixed income securities, including U.S. Treasury Securities, to TRACE. See Agency Information Collection Activities: Announcement of Board Approval Under Delegated Authority and Submission to OMB, 86 FR 59716 (October 28, 2021) (Federal Reserve approval to implement the Treasury Securities and Agency Debt and Mortgage-Backed Securities Reporting Requirements (FR 2956; OMB No. 7100–NEW)).

executed the transaction, as discussed below. FINRA is proposing to provide an exception from the amended execution timestamp provision for members with limited trading volume in U.S. Treasury Securities. The second proposed change would reduce the reporting timeframe for transactions in U.S Treasury Securities, as discussed further below.

Execution Timestamps

Existing Supplementary Material .04 to Rule 6730 provides that, when reporting transactions in U.S. Treasury Securities executed electronically to TRACE, members must report the Time of Execution⁹ pursuant to paragraph (c)(8) of Rule 6730 to the finest increment of time captured by the member's system (*e.g.*, millisecond, microsecond), but at a minimum, in increments of seconds.¹⁰ The "member's system" referenced in the existing rule refers to the system that is used to report the transaction to TRACE (*i.e.*, the member's "reporting system"). Under the existing rule and related guidance, if a member uses multiple systems to facilitate trade reporting and those systems differ in granularity, then the member may use the finest increment that is common across all systems.¹¹ As a result, currently members may use a reporting system

⁹ Under Rule 6710(d), the "Time of Execution" generally means the time when the parties to a transaction agree to all of the terms of the transaction that are sufficient to calculate the dollar price of the trade.

¹⁰ Existing Supplementary Material .04 provides that a member must report "at a minimum, in increment of seconds." As discussed below, to avoid confusion, the proposed amendments update this language to clarify that members must report trades in an increment of "no longer than a second" and no shorter than a microsecond. TRACE currently cannot accept a Time of Execution in an increment that is finer than a microsecond. The proposed rule change would also make a non-substantive edit to Supplementary Material .04 to capitalize the defined term "Time of Execution."

¹¹ Specifically, TRACE Treasury FAQ #3.5.8 provides as follows:

to report a trade to TRACE in an increment of time that is less precise than that captured by the system that is used to execute the transaction (i.e., the “execution system”).¹²

To improve the granularity and consistency of transaction information for U.S. Treasury Securities, FINRA is proposing to amend Supplementary Material .04 to Rule 6730 to instead provide that, when reporting transactions in U.S. Treasury Securities executed electronically, members must report the Time of Execution pursuant to paragraph (c)(8) of Rule 6730 to the finest increment of time captured by the execution system (e.g., millisecond, microsecond), but reporting must be in an increment of (i) no longer than a second and (ii) no shorter than a microsecond. Amended Supplementary Material .04 would not require members to update execution systems for U.S. Treasury Securities—instead members must update their reporting systems, if necessary, to ensure

Question: Our firm will use two separate systems to facilitate trade reporting of U.S. Treasury Securities for different business lines. One system (“System A”) has the capability to capture the time of execution to the millisecond; however, the second system (“System B”) will only capture the time of execution to the second. Will our firm be required to update System B to capture the time of execution to the millisecond?

Answer: No. The rule requires members to report the time of electronic executions to the finest increment of time captured in the member’s system (e.g., millisecond, microsecond), but at a minimum, in increments of seconds. Since the firm would be reporting the time of execution to the finest increment captured by each system, the firm would not need to make any updates to System B to comply with a finer time increment.

¹² For purposes of Supplementary Material .04, FINRA would consider the relevant execution system to be the system used to execute the particular U.S. Treasury Security transaction being reported to TRACE, regardless of whether the member is using its own internal systems for execution or if the transaction is executed through an external system. For example, if a member executes a transaction in a U.S. Treasury Security through an alternative trading system (“ATS”) or other electronic trading platform, the member would be required to report in the finest increment of time captured by such ATS or electronic trading platform (but no finer than a microsecond, in line with TRACE system parameters).

that their TRACE reports reflect the finest increment of time captured by the execution system (but not finer than a microsecond).¹³ Therefore, a member may be required to update its reporting system for U.S. Treasury Securities if such reporting system does not currently report to TRACE to the same level of granularity as the execution system.¹⁴

For example, if the execution system captures time in milliseconds but the reporting system for U.S. Treasury Security transactions reports the Time of Execution in seconds, the member would be required to update its reporting system to report the Time of Execution in milliseconds. Similarly, if a member's reporting system reports transactions in U.S. Treasury Securities in milliseconds but the member executes trades on an ATS that captures the execution times in microseconds, the member would be required to update its reporting system to report the Time of Execution in microseconds. FINRA believes the proposed change would result in FINRA and the official sector receiving more precise information with respect to the Time of Execution of transactions

¹³ The TRACE system does not accept trade reports in increments finer than a microsecond. Where a firm captures time in a finer increment, the firm must truncate the time when reporting the transaction to TRACE. Specifically, TRACE FAQ #3.5.37 provides as follows:

Question: Is rounding permitted when reporting the Time of Execution of a U.S. Treasury Security transaction to TRACE?

Answer: No. Members must accurately report a transaction's Time of Execution and are not permitted to round when reporting to TRACE. The TRACE system can accommodate reporting up to the microsecond and, where the firm captures time in an increment finer than microseconds, the firm must truncate when reporting to TRACE.

¹⁴ See supra note 12. In connection with the proposed rule change, FINRA would also amend its existing TRACE FAQs to clarify that a member must report using the finest increment of time captured by the execution system, and therefore may need to update other systems to enable trade reporting using the execution system's level of timestamp granularity.

in U.S. Treasury Securities, which would assist with trade matching and sequencing for U.S. Treasury Securities.

FINRA is, however, proposing to add new Supplementary Material .07 to Rule 6730 to provide a limited exception for members with limited trading volume in U.S. Treasury Securities from the proposed requirement to report electronically executed transactions in U.S. Treasury Securities to the finest increment of time captured by the execution system.¹⁵ The proposed Supplementary Material would define a “member with limited trading volume in U.S. Treasury Securities” as a member that executed transactions in U.S. Treasury Securities of \$10 million or less in average daily par value, computed by aggregating buy and sell transactions, during the preceding calendar year. Where a member’s activity is below the proposed criteria during the preceding calendar year, such member would not be required to report transactions in U.S. Treasury Securities in the finest increment captured by the execution system and would be permitted to continue to report the Time of Execution for transactions in U.S. Treasury Securities executed electronically as it does today for the duration of the following calendar year.

¹⁵ The proposed rule change would also make non-substantive, conforming edits to the Supplementary Material to Rule 6730. Specifically, existing Supplementary Material .06 to Rule 6730 provided a temporary exception for aggregate transaction reporting of U.S. Treasury Securities executed in ATS trading sessions. By its terms, that temporary exception expired on April 12, 2019. Therefore, FINRA is proposing to delete the temporary exception under existing Supplementary Material .06, renumber existing Supplementary Material .07 (ATS Identification of Non-FINRA Member Counterparties for Transactions in U.S. Treasury Securities) as Supplementary Material .06 and add the new exception for members with limited trading volume in U.S. Treasury Securities as new Supplementary Material .07.

Under the proposed rule change, a member that relies on the exception for limited trading volume would be required to confirm on an annual basis that it continues to meet the criteria for the exception based on its trading activity during the preceding calendar year. Where a member no longer meets the criteria for the exception based on its trading activity during a given preceding calendar year, the member may no longer rely on the exception beginning 90 days after the end of such calendar year, which FINRA believes would provide such members with a sufficient amount of time to make any systems changes that may be needed to comply with the amended timestamp requirement.¹⁶

As discussed further below in the Economic Impact Assessment, FINRA believes that providing an exception from the amended execution timestamp requirement is appropriate as it would apply the enhanced obligations under the rule and associated burdens to the members that engage in substantial trading activity in U.S. Treasury Securities (based on the \$10 million average daily par value traded threshold).

Reporting Timeframe Reduction

Under existing Rule 6730(a)(4)(A), transactions in U.S. Treasury Securities executed on a business day at or after 12:00:00 a.m. Eastern Time through 5:00:00 p.m. Eastern Time must be reported the same day during TRACE System Hours, i.e., 8:00:00

¹⁶ Under the proposed rule change, once a member's activity falls outside of the scope of the proposed criteria based on its trading activity during a given preceding calendar year, such member generally may no longer rely on the exception beginning 90 days after the end of such calendar year, irrespective of whether it again meets the criteria in a subsequent calendar year. However, a member may consult with FINRA staff regarding the availability of the exception where the member has changed business lines or undergone a corporate restructuring that significantly impacts its level of activity in U.S. Treasury Securities.

a.m. Eastern Time through 6:29:59 p.m. Eastern Time.¹⁷ A transaction executed on a business day after 5:00:00 p.m. Eastern Time but before the TRACE system closes can be reported the same day before the TRACE system closes, but must be reported no later than the next business day (T+1) during TRACE System Hours, *i.e.*, 8:00:00 a.m. Eastern Time through 6:29:59 p.m. Eastern Time, and, if reported on T+1, designated “as/of” and include the date of execution. Finally, a transaction executed on a business day at or after 6:30:00 p.m. Eastern Time through 11:59:59 p.m. Eastern Time (or a Saturday, a Sunday, a federal or religious holiday or other day on which the TRACE system is not open at any time during that day) must be reported the next business day (T+1) during TRACE System Hours, *i.e.*, 8:00:00 a.m. Eastern Time through 6:29:59 p.m. Eastern Time, designated “as/of,” and include the date of execution.

To provide more timely information about transactions in U.S. Treasury Securities, FINRA is proposing to amend Rule 6730(a)(4) to reduce the trade reporting timeframe as follows.¹⁸ Amended Rule 6730(a)(4) would provide that transactions in U.S. Treasury Securities must be reported as soon as practicable, but no later than the following time periods.¹⁹ Amended Rule 6730(a)(4)(A) would require that a transaction

¹⁷ Under Rule 6710(t), “TRACE System Hours” means the hours the TRACE system is open, which are 8:00:00 a.m. Eastern Time through 6:29:59 p.m. Eastern Time on a business day, unless otherwise announced by FINRA.

¹⁸ FINRA is not proposing to provide an exception for members with limited trading activity in U.S. Treasury Securities from the proposed reduced reporting timeframe requirement.

¹⁹ In connection with the proposed changes to Rule 6730(a)(4) discussed above, the proposed rule change would also make conforming changes to Supplementary Material .03 to Rule 6730, which sets forth standards for firms reporting transactions “as soon as practicable” after the Time of Execution in accordance with Rule 6730(a). Existing Rule 6730.03 provides that “[e]ach member with a trade reporting obligation pursuant to paragraph (a) above for a TRACE-Eligible Security that is subject to dissemination must adopt policies and procedures

executed on a business day at or after 12:00:00 a.m. Eastern Time through 7:59:59 a.m. Eastern Time must be reported the same day no later than 60 minutes after the TRACE system opens. A transaction executed on a business day at or after the time the TRACE system opens at 8:00:00 a.m. Eastern Time through when the TRACE system closes at 6:29:59 p.m. Eastern Time (standard TRACE System Hours) must be reported within 60 minutes of the Time of Execution, except that a transaction executed on a business day less than 60 minutes before 6:30:00 p.m. Eastern Time can be reported the same day before the TRACE system closes, but must be reported no later than 60 minutes after the TRACE system opens the next business day (T+1), and if reported on T + 1, designated “as/of” and include the date of execution. Finally, a transaction executed on a business day at or after 6:30:00 p.m. Eastern Time through 11:59:59 p.m. Eastern Time, or a Saturday, a Sunday, a federal or religious holiday or other day on which the TRACE system is not open at any time during that day (determined using Eastern Time) must be reported the next business day (T+1) no later than 60 minutes after the TRACE system opens, designated “as/of,” and include the date of execution.

FINRA believes the proposal to require that members report transactions in U.S. Treasury Securities to TRACE as soon as practicable, but no later than within 60 minutes

reasonably designed to comply with the requirement that transactions in TRACE-Eligible Securities be reported ‘as soon as practicable’ by implementing systems that commence the trade reporting process at the Time of Execution without delay.” Under the proposed rule change, the “as soon as practicable” standard would also apply to transactions in U.S. Treasury Securities, which are not subject to dissemination. Therefore, FINRA is proposing to update the first sentence of Rule 6730.03 to provide that “[e]ach member with an obligation to report a transaction in a TRACE-Eligible Security ‘as soon as practicable’ pursuant to paragraph (a) of this Rule must adopt policies and procedures reasonably designed to comply with this requirement by implementing systems that commence the trade reporting process at the Time of Execution without delay.”

of the Time of Execution (or within 60 minutes after the TRACE system opens for trades executed during specified periods, as described above) is a beneficial next step towards providing FINRA and the official sector with more timely information about activity in the U.S. Treasury Security markets than the current reporting timeframe, including more timely data about intraday pricing and liquidity. As discussed further in the Economic Impact Assessment, FINRA also notes that members already report over 90 percent of transactions in U.S. Treasury Securities within 60 minutes of the Time of Execution. FINRA will continue to consider whether further reducing the reporting timeframe for U.S. Treasury Securities may be beneficial.

If the Commission approves the proposed rule change, FINRA will announce the effective date of the proposed rule change in a Regulatory Notice. The effective date will be no later than 365 days following publication of the Regulatory Notice announcing Commission approval of the proposed rule change.

2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,²⁰ which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest.

FINRA believes that the proposed rule change to align the granularity of the Time of Execution provided in TRACE reports with the granularity of timestamps in the system used to execute transactions in U.S. Treasury Securities will enhance the

²⁰ 15 U.S.C. 78o-3(b)(6).

regulatory audit trail for U.S. Treasury Securities available to FINRA and the official sector by facilitating more efficient matching and sequencing of transactions in the audit trail data. FINRA also believes that providing an exception from the amended execution timestamp requirement for members with limited trading volume in U.S. Treasury Securities will reduce burdens for members with limited activity while continuing to ensure that FINRA and the official sector receives valuable audit trail information for U.S. Treasury Security trades. FINRA further believes that requiring members to report transactions in U.S. Treasury Securities to TRACE in a more timely manner will improve the availability to regulators of information regarding transactions in the U.S. Treasury Security markets, including more timely data about intraday pricing and liquidity.

B. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

Economic Impact Assessment

FINRA has undertaken an economic impact assessment, as set forth below, to further analyze the regulatory need for the proposed rule change, its potential economic impacts, including anticipated costs, benefits, and distributional and competitive effects, relative to the current baseline, and the alternatives FINRA considered in assessing how best to meet its regulatory objective.

Regulatory Need

Under the existing rule, members may report a trade to TRACE in an increment of time that is less precise than that captured by the execution system, which makes it

difficult to match interdealer trades when two sides report at different time granularity because coarse granularity in timestamps makes sequencing trades less precise. To address this, the proposed amendment requires that, when reporting transactions in U.S. Treasury Securities executed electronically, members must report the Time of Execution to the finest increment of time captured by the execution system, but must report in an increment of time that is no longer than a second and no shorter than a microsecond.

Under the existing rule, a transaction executed on a business day at or after 12:00:00 a.m. Eastern Time through 5:00:00 p.m. Eastern Time must be reported the same day during TRACE System Hours, while a transaction executed after 5:00:00 p.m. Eastern Time but before the TRACE system closes must be reported no later than the next business day (T+1) during TRACE System Hours. A transaction executed on a business day at or after 6:30:00 p.m. Eastern Time through 11:59:59 p.m. Eastern time or on a non-business day must be reported the next business day (T+1) during TRACE System Hours. To improve the timeliness of the information reported to TRACE, the proposed amendment will require transactions in U.S. Treasury Securities to be reported as soon as practicable, but no later than 60 minutes from the Time of Execution (or within 60 minutes after the TRACE system opens for trades executed during specified periods), which would provide more timely information to regulators.

Economic Baseline

The economic baseline of the proposed rule change is the existing TRACE U.S. Treasury Security reporting requirements, and member firms trading activities in these securities. FINRA has analyzed TRACE U.S. Treasury Security transaction reports

during the sample period of July 2020 to June 2021 by 729 members and 21 ATSs,²¹ during which there were approximately 336,612 transaction reports on average reported to TRACE per day.²² ATSs collectively accounted for 58.8 percent of these reports. Among the top 10 TRACE reporters for U.S. Treasury Securities, five are ATSs and five are non-ATS FINRA members. The top 10 reporters collectively represented 71.8 percent of all TRACE U.S. Treasury Security reports, and the five ATSs accounted for 57.8 percent of the total. On average, there were 667 FINRA members that reported fewer than 100 transactions per day for the days on which they reported transactions in U.S. Treasury Securities.

During the sample period, 253 unique MPIDs reported transactions in U.S. Treasury Securities executed on or through an ATS to TRACE.²³ Of the 253 MPIDs, 173 MPIDs reported transactions in seconds and 80 MPIDs reported transactions in milliseconds or finer. Fifty-nine of the 173 reporters which reported in seconds had no more than \$10 million in average daily par value traded. Thirty-four of the 80 reporters which reported in milliseconds or finer had no more than \$10 million in average daily par value traded. There were approximately 70.2 million ATS transactions reported in the

²¹ In selecting a sample period, FINRA also analyzed trade reports during the 2020 calendar year, which includes the March 2020 stress period, and found no significant difference in the statistics over the 2020 calendar year as compared to the statistics over the July 2020 to June 2021 period.

²² The analysis considers all transaction reports for the purpose of the rule, and thus differs from the weekly aggregated statistics published by FINRA, which adjusts for multiple reporting of trades where a trade involves an ATS or both sides are FINRA members. See supra note 6.

²³ FINRA has analyzed the number of transactions executed on or through an ATS because these are a readily identifiable subset of all electronically executed transactions.

sample period across all 253 MPIDs. Most of these transactions (72.7 percent) were reported in milliseconds or finer.

Furthermore, for the sample period reviewed, FINRA analysis found that for transactions executed on business days between 8:00 a.m. and 5:00 p.m., members reported 96.5 percent of transactions within 60 minutes of the Time of Execution. Of the 749 MPIDs (either member firm or ATS) that reported transactions, 281 MPIDs always reported transactions within 60 minutes and 12 MPIDs always reported transactions more than 60 minutes after the execution. The remaining 456 MPIDs reported transactions both within 60 minutes and after 60 minutes of execution, of which 96.5 percent were reported within 60 minutes of execution. FINRA also observed that of the transactions that were executed from 5:00 p.m. through 7:59:59 a.m. the next business day or on non-business days by 318 MPIDs, 95.5 percent of these transactions were reported within 60 minutes after the TRACE system opened. Of the 318 MPIDs, 109 always reported within 60 minutes after the TRACE system opened. Of the 318 MPIDs, 193 reported both within and after 60 minutes after the TRACE system opened.

Economic Impacts

As discussed above, FINRA is proposing two enhancements to improve the quality and timeliness of the information reported to TRACE for transactions in U.S. Treasury Securities. The enhancements will result in benefits, including facilitating market oversight and providing FINRA and the official sector with valuable insight into U.S. Treasury Security transactions, thereby benefiting the markets and market participants, and strengthening investor protection.

FINRA recognizes that the proposed enhancements may result in costs for members that trade U.S. Treasury Securities where members must implement changes to their processes and systems for reporting U.S. Treasury Securities transactions to TRACE.

The proposed rule change may affect competition between member firms with reporting obligations and non-members engaging in U.S. Treasury Security trades. Such competitive impact could result from the extent to which members pass costs resulting from the reporting requirement to customers, either fully or partially. Customers may thus choose to trade using non-members who do not have TRACE reporting obligations. However, such substitutability would depend on, among other things, whether sufficient liquidity exists with these non-reporting firms, and regulatory or practical limitations on where customers and institutions may trade. In addition, search and other costs may further impose a burden on customers that may limit such potential substitution. Substitution may also be limited where other regulators impose TRACE reporting requirements that align with the proposed rule change, for example when the Federal Reserve implements TRACE reporting for U.S. Treasury Securities for banks.²⁴ The proposed rule change may also affect competition among reporting firms, where firms reporting only a limited number of trades may face the same costs of upgrading their systems and therefore find their limited trading in U.S. Treasury Securities less viable. The impact on such firms is expected to be mitigated as a result of the proposed exception for eligible members in connection with the proposed timestamp granularity provision, as described above.

²⁴ See supra note 8.

Execution Timestamps

As discussed above, FINRA is proposing to require members to report electronically executed transactions in U.S. Treasury Securities in the finest increment of time as that captured by the execution system, but must report in an increment of time that is no longer than a second and no shorter than a microsecond. Finer time granularity in the audit trail will assist with trade matching and sequencing by allowing transactions to be matched more accurately and sequenced with more granularity. This facilitates market oversight by providing FINRA and the official sector with more information on U.S. Treasury Security transactions. It will result in costs for members that need to implement changes to their processes and systems.

FINRA is proposing an exception from the timestamp granularity requirement for members that engage in limited activity in U.S. Treasury Securities—specifically, members that executed transactions in U.S. Treasury Securities of no more than \$10 million in average daily par value traded (computed by aggregating buy and sell transactions over the prior calendar year). The \$10 million threshold would provide relief for firms with limited activity (and for which the technological changes required may be more significant compared to their level of activity in this space) while continuing to ensure that FINRA receives valuable audit trail information for U.S. Treasury Security trades. Based on 2020 data which is the full calendar year members' activity will be measured, the proposed threshold would provide relief to 485 firms that, in the aggregate, accounted for 0.11% of the total par value traded.

Reporting Timeframe Reduction

As discussed above, FINRA is proposing to reduce the timeframe for reporting transactions in U.S. Treasury Securities to TRACE to generally require reporting as soon as practicable but no later than within 60 minutes of the Time of Execution (or within 60 minutes after the TRACE system opens for trades executed during specified periods). This facilitates market oversight by providing FINRA and the official sector with more timely information on U.S. Treasury Security transactions. It will result in costs for members that need to implement changes to their processes and systems. As discussed in the baseline, members reported approximately 96 percent of transactions within 60 minutes of the Time of Execution.

Some members who trade in U.S. Treasury Securities also trade in other types of TRACE-Eligible Securities that already require reporting in a shorter timeframe. For example, transactions in corporate bonds and Agency Debt Securities²⁵ generally are required to be reported to FINRA as soon as practicable, but no later than within 15 minutes of the Time of Execution. In the sample period, of the 750 MPIDs that reported transactions in U.S. Treasury Securities, 691 MPIDs also reported transactions in corporate bonds and Agency Debt Securities. While these transactions may occur on

²⁵ Under Rule 6710(l), an “Agency Debt Security” means a debt security (i) issued or guaranteed by an Agency; (ii) issued or guaranteed by a Government-Sponsored Enterprise; or (iii) issued by a trust or other entity that was established or sponsored by a Government-Sponsored Enterprise for the purpose of issuing debt securities, where such enterprise provides collateral to the trust or other entity or retains a material net economic interest in the reference tranches associated with the securities issued by the trust or other entity. The term excludes a U.S. Treasury Security and a Securitized Product, where an Agency or a Government-Sponsored Enterprise is the Securitizer (or similar person), or the guarantor of the Securitized Product.

separate trading desks, to the extent that members are able to leverage existing technology within the firm, the costs associated with the proposed reporting timeframe changes for U.S. Treasury Securities could potentially be reduced.

Alternatives Considered

FINRA considered several alternatives to the \$10 million threshold for the exception from the timestamp granularity requirement. First, FINRA considered basing the relief on the number of trades reported rather than the par value traded. Based on its analysis, FINRA believes that average daily par value traded is a more appropriate measurement; specifically, some firms with fewer than 100 trades on average per day still had significant average trading volume. FINRA also considered basing the relief on different levels of trading activity, up to an average daily par value traded of \$100 million (which is the threshold used by the Federal Reserve for bank reporting).²⁶ FINRA determined that a \$100 million threshold would result in the loss of valuable audit trail information for members that trade significant U.S. Treasury Security volumes. FINRA also analyzed firms at or below a \$50 million threshold, a \$20 million threshold, and \$15 million threshold and determined in each case that these thresholds were too high for purposes of the proposed exception and would result in the loss of valuable audit trail information. On balance, FINRA believes that the firms within scope of the proposed execution timestamp enhancement, using the proposed \$10 million threshold, are active participants in the U.S. Treasury Security space and should be required to implement the U.S. Treasury Security reporting changes; therefore, this threshold would ensure that

²⁶ See supra note 8.

FINRA receives valuable audit trail information for U.S. Treasury Security trades from more active firms.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The proposed rule change was published for comment in Regulatory Notice 20-43 (December 2020). Nine comments were received in response to the Regulatory Notice. A copy of the Regulatory Notice is available on FINRA's website at <http://www.finra.org>. A list of the comment letters received in response to the Regulatory Notice is available on FINRA's website.²⁷ Copies of the comment letters received in response to the Regulatory Notice are also available on FINRA's website. The comments received in response to the Regulatory Notice that relate to the instant proposal are summarized below.²⁸

Execution Timestamps

Comments regarding the proposed execution timestamp requirement were mixed. Citadel supported the proposal to increase the granularity of execution timestamps to match execution systems.²⁹ EA supported normalizing the Time of Execution information received and the general language proposed in the Regulatory Notice, but stated that it should be revised to indicate best and worst boundaries, *i.e.*, the worst being

²⁷ See SR-FINRA-2022-013 (Form 19b-4, Exhibit 2b) for a list of abbreviations assigned to commenters (available on FINRA's website at <http://www.finra.org>).

²⁸ FINRA notes that Regulatory Notice 20-43 solicited comment on a number of potential enhancements to TRACE reporting for U.S. Treasury Securities, including items that are not being proposed in the instant filing. Thus, Item II.C. of this filing is limited to a discussion of comments received in response to the Regulatory Notice that relate to the items being proposed herein.

²⁹ See Citadel at 4.

one second and the best one microsecond as currently supported by the TRACE facility.³⁰

As discussed above, the proposed rule change would clarify that the Time of Execution must be reported in an increment of no longer than a second and no shorter than a microsecond.

FIF did not support increasing the granularity of execution timestamps to match execution systems, stating that the proposal would require significant system changes to match the granularity of internal and third-party execution systems, and requested that FINRA provide additional insight into the objective of the proposal.³¹ SIFMA also generally did not support increasing the granularity of execution timestamps, stated that the proposal would present technological complexities, and asked that FINRA provide additional information regarding the objectives of the proposal so that execution time information can be structured in a way that reflects the complexities of market practice, firm systems, and interactions among market participants.³² SIFMA further stated that, while some firms already provide information at this level of granularity, it is not standard across firms, and that using the most granular time component within any element of larger systems would create substantial operational challenges. In addition, SIFMA noted that it is likely that firms receive timestamps at differing increments across venues (or potentially even products), and therefore it would not be an easy or straightforward undertaking to create the level of uniformity required by the proposal.

³⁰ See EA at 1-2.

³¹ See FIF at 5-6.

³² See SIFMA at 4-5.

As discussed above, FINRA acknowledges that some members may need to make operational and technological changes to comply with the amended timestamp requirement. However, FINRA continues to believe that the benefits to the regulatory audit trail of aligning the timestamps reported to TRACE with those captured by the relevant execution system are appropriate. In particular, requiring firms to align the reporting system timestamp granularity to the level of granularity used in the execution system would result in more precise information with respect to the Time of Execution of transactions in U.S. Treasury Securities that would be available to FINRA and the official sector, which would assist with trade matching and sequencing for U.S. Treasury Securities. FINRA also notes that the proposed timestamp requirement would provide an exception for members with limited trading activity, which is intended to provide relief for firms with limited activity in the U.S. Treasury Security markets from making the operational and technological changes that may be needed to update their systems to comply with the new requirements.

SIFMA raised concerns regarding the proposed requirement for transactions that are “executed electronically,” and stated that it is unclear which transactions would be within scope of the proposal, and further stated that creating a different standard for voice versus electronic trades would create confusion. SIFMA also asserted that it would be most effective from a technological perspective to apply the same timestamp standards across all TRACE-Eligible Securities, such that timestamp granularity for U.S. Treasury Securities would be informed by the limitations and structural constraints that shape reporting timestamps for other TRACE-Eligible Securities.

With respect to commenter concerns regarding members' ability to accurately identify transactions that are "executed electronically" and the impact of establishing different standards for voice versus electronic trades, FINRA notes that the existing timestamp granularity provision for U.S. Treasury Securities in Rule 6730.04 specifically applies to transactions that are "executed electronically," and FINRA is not aware that there has been confusion regarding the scope of the current requirement that has resulted in compliance concerns for members. To the extent that members encounter interpretive questions, FINRA will work with the industry to provide guidance, as appropriate, with respect to the proposed amendments.

FINRA appreciates commenter concerns regarding requiring a different timestamp granularity standard for U.S. Treasury Securities than for other TRACE-Eligible Securities. FINRA notes that, to the extent preferable, members may choose to make the systems changes required under the proposal for reporting all TRACE-Eligible Securities in the same increment as captured by the execution system used to execute the transaction (to the extent this is preferable to making the change solely for U.S. Treasury Securities). FINRA also notes that the proposal would not require that trades executed electronically be captured by execution systems in increments finer than a second; however, to the extent that the execution system uses a finer increment, the proposal would require that TRACE reports also reflect such finer increment (but no finer than a microsecond, in line with TRACE system parameters).

Reporting Timeframe Reduction

Comments regarding reducing the reporting timeframe for U.S. Treasury Securities were generally supportive. EA supported the proposed 60-minute reporting

timeframe, noting that it already reports transactions within this timeframe. EA stated that the 60-minute requirement would be a significant step forward while still allowing members sufficient time between execution and reporting to resolve any system issues.³³ FIA PTG stated that there was no justification for the lengthy reporting window that exists today in light of the prevalence of electronic trading in this market.³⁴ As such, FIA PTG stated that, at a minimum, it supported the proposed reduction to a 60-minute timeframe, but would generally recommend further reducing the reporting timeframe to no greater than 15 minutes, congruent with current reporting requirements for corporate bonds. Additionally, with respect to on-the-run U.S. Treasury Securities, FIA PTG recommended a 10-second reporting window to mirror U.S. equity markets, given the liquidity profile of the market for on-the-run U.S. Treasury Securities.

Similarly, both Citadel and MFA supported the proposed reporting timeframe reduction, but both recommended further reducing the period to 15 minutes to harmonize reporting with corporate bonds.³⁵ Citadel agreed that the proposed reduction would provide the official sector with access to more timely data regarding intraday pricing and liquidity dynamics. Citadel argued that market participants should be well-situated to comply with a 15-minute timeframe for U.S. Treasury Securities, noting that members already report approximately 95% of U.S. Treasury Security transactions within an hour after execution, despite not being required to report until end-of-day. Citadel further stated that harmonizing reporting timeframes is warranted given the ongoing

³³ See EA at 2.

³⁴ See FIA PTG at 1.

³⁵ See Citadel at 1-2; MFA at 2.

consideration of whether to publicly report secondary market U.S. Treasury Security transactions, as public dissemination would require trading activity to be reported to FINRA as soon as possible following execution. MFA also argued that regulators should have the same timely data with respect to the U.S. Treasury Securities as they do for corporate bonds, noting that timely data is critical for regulators to perform their supervisory functions, especially in times of extreme market volatility.

FIF stated that its members generally do not object to a reduction in the reporting timeframe. FIF stated that some members recommend a two-hour timeframe rather than the proposed 60-minute timeframe, while other FIF members recommend a shorter timeframe that is harmonized with requirements in other asset classes (i.e., 15 minutes for corporate bonds).³⁶ SIFMA noted that, although shortening the reporting timeframe would be a substantial change, its members feel that some shortening of the reporting timeframe would be feasible for firm systems, provided that any change includes sufficient time for implementation and testing.³⁷ However, SIFMA recommends moving to a reporting timeframe of, at most, two hours, rather than the proposed 60-minute timeframe. SIFMA noted that operational challenges would be inherent in moving from the current reporting timeframe to the proposed 60 minute-timeframe, including the impact of transmitting more data through systems on an intraday basis, as well as the potential for increased late reports, cancels and corrections. SIFMA also stated that the reporting timeframe should reflect the unique operational and market responsibilities of firms active in the U.S. Treasury Security market, noting for example that primary

³⁶ See FIF at 6.

³⁷ See SIFMA at 5-6.

dealers have responsibilities to support auctions and open market activity, such that a wider reporting window would provide more flexibility to meet firms' other time-sensitive requirements.

FINRA continues to believe that requiring members to report as soon as practicable, but no later than 60 minutes from the Time of Execution is appropriate for U.S. Treasury Securities. The proposed reporting timeframe would provide FINRA and the official sector with more timely data regarding U.S. Treasury Security transactions, which will significantly increase the ability of regulators to monitor intraday pricing and liquidity information in the U.S. Treasury Security markets. FINRA does not agree that a longer outer limit reporting timeframe than 60 minutes—e.g., two hours—would be appropriate, as it would reduce the timeliness of intraday data available to FINRA and the official sector. FINRA does not believe that the operational challenges of reporting within 60 minutes would be significantly greater than reporting within two hours. As discussed above in the Economic Impact Assessment, FINRA notes that members already report over 90 percent of transactions in U.S. Treasury Securities within 60 minutes of the Time of Execution. FINRA also does not believe that establishing an outer limit of 15 minutes or 10 seconds is appropriate. As noted above, individual transaction information for U.S. Treasury Securities is not publicly disseminated, and therefore the shorter timeframes that generally apply to disseminated transactions are not necessary for U.S. Treasury Securities. Thus, FINRA continues to believe that requiring members to report as soon as practicable, but no later than 60 minutes from the Time of Execution is appropriate for U.S. Treasury Securities as it would provide more timely information for

regulatory use while balancing concerns regarding the burdens that would be imposed on reporting members.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FINRA-2022-013 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FINRA-2022-013. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2022-013 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.³⁸

Jill M. Peterson
Assistant Secretary

³⁸ 17 CFR 200.30-3(a)(12).

Regulatory Notice

20-43

Trade Reporting and Compliance Engine (TRACE)

FINRA Requests Comment on Enhancements to TRACE Reporting for U.S. Treasury Securities

Comment Period Expires: February 22, 2021

Summary

In consultation with the U.S. Department of the Treasury (Treasury Department), FINRA is soliciting comment on potential enhancements to the information reported to FINRA's TRACE facility regarding transactions in U.S. Treasury securities. Specifically, FINRA is seeking comment on potential changes to TRACE reporting for U.S. Treasury securities that would require: (1) more granular execution timestamps; (2) a shortened trade reporting timeframe; (3) new indicators to identify non-alternative trading system (ATS) trading venues and method of execution, the trading unit within a firm executing a trade, and the method used to clear and settle a transaction; (4) new modifiers to identify additional multi-leg transactions and whether a transaction is priced at the current market; (5) standardized price reporting; and (6) separate reporting of per-transaction ATS fees. FINRA also is soliciting views on whether these proposed changes should apply to all TRACE-eligible securities uniformly, if applicable.

Questions regarding this *Notice* should be directed to:

- ▶ Patrick Geraghty, Vice President, Market Regulation, at (240) 386-4973;
- ▶ Chris Stone, Vice President, Transparency Services, at (202) 728-8457; or
- ▶ Racquel Russell, Associate General Counsel, Office of General Counsel, at (202) 728-8363.

December 23, 2020

Notice Type

- ▶ Request for Comment

Suggested Routing

- ▶ Fixed Income
- ▶ Government Securities
- ▶ Legal & Compliance
- ▶ Operations
- ▶ Systems
- ▶ Trading

Key Topics

- ▶ TRACE
- ▶ Trade Reporting
- ▶ U.S. Treasury Securities

Referenced Rules and Notices

- ▶ FINRA Rule 6710
- ▶ FINRA Rule 6720
- ▶ FINRA Rule 6730
- ▶ FINRA Rule 6732
- ▶ FINRA Rule 11900
- ▶ Regulatory Notice 16-39
- ▶ Regulatory Notice 18-34

Action Requested

FINRA encourages all interested parties to comment on this request for comment. Comments must be received by February 22, 2021.

Comments must be submitted through one of the following methods:

- ▶ Online using FINRA's comment form for this *Notice*;
- ▶ Emailing comments to pubcom@finra.org; or
- ▶ Mailing comments in hard copy to:

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

To help FINRA process comments more efficiently, persons should use only one method to comment.

Important Notes: Comments received in response to *Regulatory Notices* will be made available to the public on the FINRA website. In general, comments will be posted as they are received.¹

Before becoming effective, any proposed rule change must be filed with the Securities and Exchange Commission (SEC) pursuant to Section 19(b) of the Securities Exchange Act of 1934 (SEA).²

Background and Discussion

On July 10, 2017, FINRA members began reporting information on transactions in U.S. Treasury securities to TRACE.³ These reporting requirements apply only to FINRA members. However, FINRA notes that the Board of Governors of the Federal Reserve System (Federal Reserve) has announced that it plans to collect data on secondary market transactions in U.S. Treasury securities from banks and will enter into negotiations with FINRA to potentially act as the Federal Reserve's collection agent for the data.⁴ To the extent that the Federal Reserve requires banks to report these transactions to TRACE, any expanded data collection described in this *Notice*, subject to filing with and approval by the SEC, potentially also would apply to banks.

Information in TRACE regarding transactions in U.S. Treasury securities is for regulatory and other official sector purposes and is not disseminated publicly.⁵ FINRA makes the data available to the official sector to assist them with monitoring and analysis of the U.S.

Treasury securities markets.⁶ Since the implementation of the reporting requirements, FINRA, together with the official sector, has continued to study the data members report and assess the quality of the data, and has taken steps to enhance the data. For example, FINRA recently began requiring that large ATSS identify non-member subscribers when reporting transactions in U.S. Treasury securities to TRACE to enhance the data available to FINRA and the official sector.⁷ The Treasury Department has recommended that FINRA consider additional changes to U.S. Treasury securities reporting to provide more insight into trading in the U.S. Treasury securities markets.⁸ FINRA is issuing this *Notice* to solicit comment on these potential changes to help inform FINRA's and the official sector's continuing analysis of the data and whether changes to the TRACE reporting rules for U.S. Treasury securities may be appropriate.

A. Execution Timestamps

FINRA is considering revisions to the current execution timestamp requirements for U.S. Treasury securities to improve the accuracy of the information reported to TRACE. Currently, Rule 6730 requires members to report the Time of Execution⁹ for a transaction executed electronically to the finest increment of time captured in the member's system (*e.g.*, millisecond, microsecond), but at a minimum, in increments of seconds.¹⁰ However, if a member uses multiple systems to facilitate trade reporting and those systems differ in granularity (*e.g.*, System A captures time to the millisecond, while System B only captures time to the second), then the member currently may use the finest increment that is common across all systems (*i.e.*, in this example, to the second), and is not required to update its systems to trade report to the finer increment captured by System A.¹¹

FINRA is considering revising the existing rule to require that members report transactions executed electronically in U.S. Treasury securities to TRACE in the finest increment of time captured by the firm's execution system, but at a minimum, in increments of a second. Therefore, for example, if the firm's execution system captures time in milliseconds but its system for reporting U.S. Treasury securities transactions only reports time in seconds, the firm would be required to update its reporting system so that it reports Time of Execution in milliseconds. Similarly, where a firm executes transactions in U.S. Treasury securities through an external system, FINRA is considering requiring that firms report such transactions to TRACE consistent with the Time of Execution communicated by the execution venue. Therefore, for example, if a firm executes a transaction on an ATS and receives an execution message from the ATS providing an execution time in microseconds, the firm also would report its leg of the ATS transaction with an execution time in microseconds. FINRA believes this change would result in FINRA receiving more accurate and consistent information across reporters with respect to the Time of Execution of the transaction.

B. Reporting Timeframe Reduction

Rule 6730 sets forth how trades executed during different time periods throughout the day are to be reported to TRACE. Specifically, for transactions executed on a business day from 12:00:00 a.m. to 5:00:00 p.m., firms must report the trade the same day during TRACE system hours.¹² For transactions executed on a business day after 5:00:00 p.m. but before the TRACE system closes, firms must report the trade no later than the next business day (T+1) during TRACE system hours (and, if reported on T+1, designated “as/of” with the date of execution). Finally, for transactions executed on a business day at or after 6:30:00 p.m. through 11:59:59 p.m., or on a Saturday, Sunday, a federal or religious holiday, or other day on which the TRACE system is not open at any time during that day, firms must report the trade on T+1 during TRACE system hours (and designate the trade “as/of” and include the date of execution).

FINRA is considering reducing the trade reporting timeframe for U.S. Treasury securities to facilitate more timely availability to regulators of intraday pricing and liquidity information on U.S. Treasury securities. FINRA is considering amending the current rules to provide that:

- ▶ for transactions executed on a business day at or after 12:00:00 a.m. through 7:59:59 a.m., firms would be required to report the trade the same day no later than 60 minutes after the TRACE system opens.
- ▶ for transactions executed on a business day at or after 8:00:00 a.m. through 6:29:59 p.m., firms would be required to report the trade within 60 minutes of the Time of Execution, except that, for transactions executed on a business day less than 60 minutes before 6:30:00 p.m., firms would be required to report the trade no later than 60 minutes after the TRACE system opens on T+1 (and, if reported on T+1, designated “as/of” with the date of execution).
- ▶ for transactions executed on a business day at or after 6:30:00 p.m. through 11:59:59 p.m., or for trades executed on a Saturday, a Sunday, a federal or religious holiday, or other day on which the TRACE system is not open at any time during that day, firms would be required to report the trade on T+1 no later than 60 minutes after the TRACE system opens (and must designate the trade “as/of” and include the date of execution).

C. Platform Information and Trading Method

FINRA is considering changes to require members to report information regarding the identity of any non-ATS electronic trading platform through which a transaction in a U.S. Treasury security occurs as well as the method of execution (*i.e.*, voice or electronic) of a transaction in a U.S. Treasury security. Currently, Rule 6720(c) requires that member ATSs (as that term is defined in Rule 300 of SEC Regulation ATS) obtain a separate MPID for purposes of TRACE reporting. This separate MPID requirement applies to any member ATS that trades TRACE-eligible securities if it meets Regulation ATS’s definition of “alternative trading system,” irrespective of whether the member ATS is required to comply with Regulation ATS.¹³ By requiring that a separate MPID be used for ATS activity, FINRA is

better able to specifically identify which transactions occur on or through an ATS. An ATS's separate MPID must be used: (1) when the ATS submits trade reports to TRACE; and (2) where an ATS is exempt from TRACE reporting pursuant to Rule 6732 (Exemption from Trade Reporting Obligation for Certain Transactions on an Alternative Trading System) and the member counterparties to the exempt trade on the ATS must enter the ATS's separate MPID on the TRACE report for those transactions.

However, there is significant activity in U.S. Treasury securities through other, non-ATS fixed income electronic trading platforms that are not specifically identified in the TRACE audit trail. To capture additional information about the trading that occurs through these platforms, FINRA is considering requiring members, when reporting transactions in U.S. Treasury securities to TRACE, to populate a separate field to identify the non-ATS platform on or through which it transacted. This additional information would allow FINRA to identify a broader range of electronic trading platforms through which transactions in U.S. Treasury securities may originate and occur. For purposes of the proposal, a "non-ATS trading platform" would include any electronic system that does not meet the definition of an ATS under SEC Regulation ATS, through which multiple parties facilitate orders, request-for-quotes (RFQs), or negotiate the terms of a trade in a U.S. Treasury security. These platforms currently do not have a separate MPID and are not otherwise identifiable in TRACE reports. Under the proposal, members would be required to identify the non-ATS trading platform for those transactions that originated or occurred through the platform. To provide consistent identification of these platforms across TRACE reports, FINRA would provide to reporters a list of non-ATS trading platform identifiers for use in populating the new field. If a member trades in a U.S. Treasury security through a platform not yet included in the TRACE list, the member would be required to notify FINRA so that the platform can be added to the list of identifiers.

Importantly, the SEC recently published for comment proposed amendments to Regulation ATS that would eliminate the existing exemption from compliance with Regulation ATS for an ATS that trades only government securities, including U.S. Treasury securities.¹⁴ As part of that release, the SEC also issued a concept release seeking feedback on the regulatory framework for electronic platforms that trade corporate debt and municipal securities in response to recommendations from the SEC's Fixed Income Market Structure Advisory Committee (FIMSAC) to review this area.¹⁵ FINRA recognizes that the feedback and ultimate outcome of the SEC's proposed amendments and concept release will impact and inform any proposal FINRA may advance in this area, for example, to help better and more consistently identify the types of electronic systems and platforms that trade fixed income securities.

In addition to identifying the platform in TRACE reports, FINRA also is considering changes to require for all transactions in U.S. Treasury securities (whether or not an electronic component to the transaction exists), that members indicate whether the transaction was executed via voice or electronically.

D. Desk Identifiers

FINRA is considering adding a new trading desk or unit identifier field for U.S. Treasury securities reporting to identify the specific desk or unit within a member firm executing the transaction. Member counterparties currently are identified in TRACE by the MPID submitted in the transaction report. Some firms trade U.S. Treasury securities from multiple desks or units. For those firms with multiple desks or units, each independent desk or unit within a firm may execute trades using a separate MPID or they may share the same MPID for the entire firm—either approach is permissible under the TRACE rules.

FINRA is considering changes to the trade reporting requirements that would require more granular information regarding the desk or unit executing a U.S. Treasury security trade. Specifically, FINRA would require members to assign and enter an additional identifier for each desk or unit at the firm that executes transactions in U.S. Treasury securities. Firms would provide FINRA with a list of all desks/units within the firm that may trade a U.S. Treasury security, along with the firm-generated identifier for each (within the alpha or numeric parameters specified by FINRA). Members also would be required to keep FINRA informed of any change to the member's desk or unit identification assignments by providing FINRA with the updated assignments by the next business day following the implementation of such change. FINRA would not require that each trading desk or unit have a separate MPID, nor would firms be required to modify their existing organization in any way. Allowing each firm to specify the relevant desks and units and assign identifiers provides firms with flexibility and, therefore, accounts for varying structures across different member firms.¹⁶

E. Clearing Arrangement Indicator

FINRA is considering requiring members to append a new indicator that would identify whether a transaction in a U.S. Treasury security will be cleared centrally or bilaterally.¹⁷ Rule 6730 does not currently require members to specify in TRACE whether a transaction in a U.S. Treasury security will be centrally or bilaterally cleared. In addition, FINRA rules do not mandate that members centrally clear transactions in U.S. Treasury securities.¹⁸

The method by which a transaction is cleared and settled—specifically whether the parties to the transaction use a central clearing counterparty—affects the degree and type of risk the parties bear (*e.g.*, counterparty financial exposure). FINRA understands that the proportion of trades in U.S. Treasury securities that are cleared centrally through FICC¹⁹ has changed over time along with changes in the composition of the participants in the interdealer U.S. Treasury securities cash market.²⁰ Specifically, these changes include the growth of electronic trading platforms and the entrance of new market participants that are not broker-dealer FICC members.²¹ Although recent efforts have been made to expand the scope of transactions that are centrally cleared through FICC,²² market developments in recent years have prompted calls for greater study of the clearing practices and counterparty risk in this market.²³ To support this objective, FINRA is proposing adding a new clearing arrangement indicator that members would be required to report that would identify whether a trade in a U.S. Treasury security will be cleared bilaterally or centrally.

F. Multi-leg Transaction Modifiers

FINRA is considering whether additional modifiers to identify specific categories of multi-leg transactions involving a U.S. Treasury security are appropriate, as well as an additional modifier to indicate whether the U.S. Treasury security transaction is priced at or off market. Currently, members are required, among other things, to identify a transaction in a U.S. Treasury security that is: (a) part of a series of transactions where at least one of the transactions involves a futures contract with the .B modifier; and (b) part of a series of transactions where one or more legs may not be priced based on the current market with the .S modifier. FINRA believes that the scope of usage of the .B modifier is relatively narrow and consistent; however, the .S modifier is used for a wide range of multi-leg transactions, including those that have different implications on how the price of the reported trade should relate to the current market price. FINRA is considering adding modifiers to further distinguish various strategies, as well as to provide information as to whether the transaction in the U.S. Treasury security is priced at the current market. As stated below in the Preliminary Economic Impact Analysis and Request for Comments section, FINRA welcomes feedback on the appropriate types and groupings of strategies involving U.S. Treasury securities, and initially is considering proposing modifiers to identify:

- ▶ trades involving a series of nominals (*e.g.*, curves, butterflies; swap box, rolls; off-the-run vs. off-the-run strategies). These strategies may vary from two to four or more transaction legs. These strategies may seek to benefit from differences in (or expected changes in) the shape of the Treasury yield curve—for example, buying or selling a short maturity U.S. Treasury security, while taking one or more opposite positions in an intermediate or long-term maturity U.S. Treasury security. These strategies also may seek to take advantage of differences between on-the-run and off-the-run U.S. Treasury securities. For example, a market participant may sell an off-the-run U.S. Treasury security and simultaneously buy the most recent on-the-run U.S. Treasury security.
- ▶ breakeven trades (*e.g.*, nominal and Treasury Inflation Protected Security (TIPS) legs). A breakeven trade is a relative value trade involving a nominal U.S. Treasury security and a TIPS, where the trade participants take positions based on inflation expectations.
- ▶ trades against an interest rate swap (*e.g.*, asset swaps with U.S. Treasury securities or swap spreads). These risk management strategies involve U.S. Treasury securities and derivative contracts.
- ▶ Trades hedging other security types (*e.g.*, hedging corporates, mortgage-backed securities, foreign sovereigns). Hedge trades involve at least two legs and generally are intended to manage interest rate risk. For example, a market participant might purchase a corporate bond, agency debenture, municipal bond, or other type of security, while simultaneously selling short a U.S. Treasury security with a similar maturity.²⁴

- ▶ Any other multi-leg transaction not specified in the above categories would be identified with a new “catch-all” modifier for other U.S. Treasury security trades that are part of a series of transactions.

Finally, FINRA is considering, for each strategy (including for trades identified using the existing .B modifier²⁵ and the new catch-all category), that members further specify whether the U.S. Treasury securities transaction is executed at a price that is at or off the current market. The new strategy modifiers would replace the current use of the .S modifier, which is used to identify a transaction that is part of a series of transactions and *may not* be priced based on the current market.

G. Standardized Price Reporting

Members are required to report the price of a transaction or the elements necessary to calculate the price. Certain U.S. Treasury securities are traded and quoted using different price conventions, including Treasury bills (which use a discount rate) and floating rate notes (FRNs) (which use a discount margin). FINRA has issued guidance to members that, in such cases, members may report the price of a transaction as either the discount rate or discount margin, but members are still permitted to report the dollar price.²⁶

Where members are permitted to choose to report price in either dollars or another measure, it is more likely that validation mismatches would occur. Unmatched trades in the audit trail may reduce the clarity of the available data.²⁷ As a result, FINRA is considering changes to require further standardization of the measure used to report price in these types of U.S. Treasury securities.²⁸ As stated below in the Preliminary Economic Impact Analysis and Request for Comments section, FINRA welcomes feedback on the appropriate approach to standardizing price for Treasury bills and FRNs—for example, FINRA is considering whether it is appropriate to require that firms report the discount rate for transactions in Treasury bills and the discount margin for transactions in FRNs, rather than also being permitted to report the dollar price in these instances.

H. Report ATS Fees Separately

FINRA Rules 6730(c) and (d)(1) set forth member obligations for reporting the price of a transaction in a TRACE-eligible security. Members must report the price of a transaction, including any mark-up or mark-down the member charges (for principal transactions), but excluding any commission the member charges (for agency transactions), which must be reported separately from the reported price. Currently, members trading on an ATS also may include in the price reported to TRACE certain per-transaction fees that the ATS may assess for a transaction. FINRA understands that ATSs may assess fees to subscribers in a variety of ways—*e.g.*, an ATS may bill subscribers on a monthly basis or may charge a per-transaction fee. Further, per-transaction fee arrangements may differ among subscribers, resulting in different fees being assessed to each counterparty to a trade. These varying fee arrangements can result in differences in the prices the counterparties to a transaction

report to TRACE (*i.e.*, where one member pays ATS fees on a monthly basis while the other pays a per-transaction fee, or where both members pay a different per-transaction fee with respect to the transaction).

FINRA is considering requiring that members report per-transaction ATS fees separately from the price when reporting transactions in U.S. Treasury securities to TRACE. Therefore, under the proposal, instead of reflecting any per-transaction fee in the price, members would report the price (exclusive of such fees) and include these fees in a new, separate, per-transaction, ATS fee field.

Preliminary Economic Impact Analysis and Request for Comments

As discussed above, FINRA is considering potential enhancements to improve the quality of the information reported to TRACE for transactions in U.S. Treasury securities. These potential enhancements likely would result in direct and indirect costs for firms that trade U.S. Treasury securities by requiring firms to implement changes to their processes and systems for reporting U.S. Treasury securities transactions to TRACE.²⁹ In addition to the specific questions noted below, FINRA requests comment on all aspects of this *Notice*, including the costs and burdens associated with these potential enhancements. FINRA requests that commenters provide empirical data or other factual support for their comments wherever possible.

Execution Timestamps

As discussed above, FINRA is considering requiring members to report electronically executed transactions in U.S. Treasury securities to the same degree of granularity as that captured by the execution system (internal or external) used to execute the transaction. In the first half of 2019, 267 unique MPIDs reported transactions in U.S. Treasury securities executed on or through an ATS to TRACE.³⁰ Of the 267 MPIDs, 225 MPIDs reported transactions in seconds only and six MPIDs reported in milliseconds or finer only. The remaining 36 MPIDs reported transactions in both seconds and milliseconds or finer. There were approximately 32.5 million ATS transactions reported in the sample period across all 267 MPIDs. The majority of these transactions (74.8 percent) were reported in milliseconds or finer.

- ▶ FINRA requests that firms provide detailed information regarding the feasibility of reporting to the same degree of granularity as captured by the system (internal or external) on or through which the U.S. Treasury securities transaction was executed.
 - ▶ What updates or changes to systems would be necessary to facilitate this type of change?

- ▶ What, if any, concerns or additional costs would commenters anticipate if FINRA were to require members to report transactions in U.S. Treasury securities to the same degree of granularity as captured by the execution system?
- ▶ FINRA requires manual trades to be reported in seconds, but permits firms to enter seconds as “00” if the firm’s system is not capable of reporting seconds.³¹ Should FINRA continue to permit manual trades to effectively be reported in minutes, or should reporting to at least seconds be required? Why or why not?

Reporting Timeframe Reduction

FINRA is contemplating changes to reduce the timeframe for reporting transactions in U.S. Treasury securities to TRACE to within 60 minutes of execution. FINRA analyzed member trade reporting behaviors for U.S. Treasury securities transactions in the first half of 2019 and observed that firms reported approximately 95 percent of transactions within 60 minutes of the Time of Execution.³² In the sample period, of the 864 MPIDs that reported transactions in U.S. Treasury securities within the same day, 417 MPIDs always reported transactions within 60 minutes and six MPIDs always reported transactions more than 60 minutes after the execution. The remaining 441 MPIDs reported transactions both within 60 minutes and after 60 minutes of execution, of which more than 95 percent were reported within 60 minutes of execution.³³

FINRA also observed during the sample period that, of the transactions that were executed after 5:30 p.m. and reported the next day, approximately 93 percent of these transactions were reported within 60 minutes after the TRACE system opened (by 96 MPIDs). Of the 96 MPIDs, 39 always reported within 60 minutes, accounting for approximately 5 percent of overall dollar trading volume reported the next day. Of the 96 MPIDs, 44 reported both within and after 60 minutes after the TRACE system opened the next day, accounting for 94.9 percent of overall dollar trading volume reported the next day, of which 92.8 percent of the dollar trading volume was reported within 60 minutes.

Some member firms who trade in U.S. Treasury securities also trade in other types of TRACE-eligible securities that already require reporting in a shorter timeframe. For example, transactions in corporate bonds and Agency debt securities generally are required to be reported to FINRA within 15 minutes of the Time of Execution pursuant to FINRA Rule 6730. In the sample period, of the 874 MPIDs that reported transactions in U.S. Treasury securities, 772 MPIDs also reported transactions in corporate bonds and Agency debt securities. While these transactions may occur on separate trading desks, to the extent that firms are able to leverage existing technology within the firm, the costs associated with the proposed reporting timeframe changes for U.S. Treasury securities could potentially be reduced.

- ▶ Do members anticipate any operational challenges to complying with a shortened reporting timeframe? For example, do firms anticipate that reporting within 60 minutes of execution may result in the need for additional cancellations or corrections?
- ▶ What, if any, additional costs would commenters anticipate if FINRA were to require members to report transactions in U.S. Treasury securities within the timeframes proposed here?
- ▶ Are there any current system limitations that may complicate reporting within 60 minutes of execution? If so, are those limitations similar for both voice and electronic executions?
- ▶ Should FINRA consider a shorter reporting timeframe than 60 minutes? If so, what shorter timeframe would be appropriate and why?
- ▶ What implementation period would be appropriate to provide members with sufficient time to comply with changes to the reporting timeframe?

Trading Method and Platform Information

As discussed above, FINRA is considering requiring that members specify the method of execution for a trade in a U.S. Treasury security—*i.e.*, whether the trade was executed via voice or electronically.

- ▶ Is execution method information currently captured by firms?
- ▶ What is an appropriate definition of a “voice” or an “electronic” trade?
- ▶ Should the definition of an “electronic” trade be limited to machine-to-machine interfaces only, or should it be extended to RFQ processes, or other non-human interfaces?
- ▶ Should the definition of a “voice” trade include electronic communications, such as email and instant messaging, where a human has to make a decision? Should all trades resulting from human negotiations (even if performed over an electronic medium) be categorized as “voice?”
- ▶ What, if any, additional costs would commenters anticipate if FINRA were to require members to specify on trade reports the method of execution for a trade in a U.S. Treasury security?
- ▶ Please describe any potential implementation challenges associated with complying with these requirements. For example, would it be difficult for members to indicate on trade reports whether a trade was executed via voice or electronically? If so, please describe the difficulties involved.
- ▶ Should the definition of an “electronic” trade used for purposes of execution method reporting also apply for other purposes, *e.g.*, determining whether a trade is executed electronically or manually for purposes of the timestamp requirements described above? Why or why not?

As discussed above, FINRA currently can identify transactions in U.S. Treasury securities that occur on or through an ATS, regardless of whether the ATS is required to comply with Regulation ATS or if the ATS is itself exempt from TRACE reporting under FINRA rules. To identify a broader range of electronic trading platforms through which transactions in U.S. Treasury securities may originate and occur, FINRA is considering requiring members to append a unique identifier for each non-ATS trading platform used for transactions in U.S. Treasury Securities. A “non-ATS trading platform” required to be identified under the proposal would include any electronic system that is not an “alternative trading system,” as that term is defined in Rule 300 of SEC Regulation ATS, through which multiple parties facilitate orders, RFQs, or negotiate the terms of a trade in a U.S. Treasury security.

- ▶ Is the above an appropriate definition for a “non-ATS trading platform?” Specifically, should the definition include non-ATS platforms that “facilitate orders, RFQs, or negotiate the terms of a trade”? Would the proposed definition effectively identify those non-ATS electronic trading platforms members currently use to trade U.S. Treasury securities? Why or why not? If not, what alternative definition or definitional elements would be more appropriate?
- ▶ Please provide detailed information regarding the feasibility of identifying non-ATS trading venues. For example:
 - ▶ Is trading venue information currently captured by firms?
 - ▶ Does the ability of firms to identify non-ATS platforms vary or depend on the characteristics of a particular trade, *e.g.*, whether the trade originates through a firm’s own order management system or whether it is executed based on external bids or offers from outside platforms?
 - ▶ Do members anticipate being able to develop a fully automated process to comply with such a requirement at the time of trade reporting, or would the process include any manual efforts by traders or others?
 - ▶ Is non-ATS trading venue information available within a timeframe sufficient to be included in the TRACE report for the trade?
- ▶ To facilitate compliance, FINRA would provide a list of non-ATS trading platforms for U.S. Treasury securities for use by reporters. Do members anticipate any challenges with uniformly identifying trading platforms for inclusion on the list? Are there any other alternative approaches that should be considered to achieve this regulatory objective?
- ▶ FINRA is aware that members transact in other types of TRACE-eligible securities through non-ATS trading venues; however, FINRA currently is considering this identification requirement only for U.S. Treasury securities (and intends to consider the potential application to other types of TRACE-eligible securities separately). Is this an appropriate first step to facilitate the availability to regulators of information on the trading platforms used for transactions in U.S. Treasury securities?

- ▶ As noted above, in September 2020, the SEC proposed amendments to SEC Regulation ATS that would eliminate the existing exemption for an ATS that trades only government securities, including U.S. Treasury securities.³⁴ In the same release, the SEC also published a concept release on the electronic corporate bond and municipal securities market as part of the SEC's review of the regulatory framework for fixed income electronic trading platforms in response to recommendations from the FIMSAC.³⁵ Do members have views on whether the changes proposed by the SEC or discussed in the SEC's concept proposal impact or could inform the modifications sought here?
- ▶ What implementation timeframe would be appropriate to provide members sufficient time to identify platform information and the trading method used?
- ▶ What, if any, additional costs would commenters anticipate if FINRA were to require members to identify non-ATS trading platforms used for transactions in U.S. Treasury securities?

Desk Identifiers

FINRA is considering changes to require members to assign and use a unique identifier for each desk or unit at the firm that executes transactions in a U.S. Treasury security.

- ▶ FINRA understands that, in some cases, traders may manage a trading book, which may be linked to multiple desks or algorithms. Is this accurate? If so, in such cases, is the concept of a trading desk or unit identifiable for firms trading in U.S. Treasury securities?
- ▶ Is this information currently captured by firms? If not, how difficult would it be to capture this information?
- ▶ What, if any, additional costs would commenters anticipate if FINRA were to require members to assign and use a unique identifier for each desk or unit at the firm that executes transactions in U.S. Treasury securities?
- ▶ What, if any, implementation challenges may exist with respect to complying with this requirement?
- ▶ Should FINRA consider defining a desk or unit for these purposes and, if so, how? For example, are there existing definitions that FINRA should consider incorporating, *e.g.*, the definition of "trading desk" for purposes of the Volcker Rule?³⁶ How would commenters anticipate defining a "desk" or "unit" for purposes of reporting this information to TRACE?
- ▶ FINRA is considering requiring firms to keep FINRA informed of any changes to desk/unit ID assignments by providing FINRA with updated desk/unit assignments by the next business day following the implementation of the change. Is this timeframe reasonable for members? If not, what would be a more reasonable timeframe?

- ▶ What implementation timeframe would be appropriate to provide members with sufficient time to comply with changes to require desk identification?

Clearing Arrangement Indicator

FINRA is considering requiring that members specify whether a trade in a U.S. Treasury security will be centrally or bilaterally cleared. FINRA understands that, to the extent that the clearing method is not captured or stored in current systems, firms may incur costs associated with developing systems and protocols to capture, store and report a clearing arrangement indicator.

- ▶ Do firms always know at the time of the trade whether a trade will be cleared bilaterally or centrally? If not, when does this information become available?
- ▶ Do members anticipate being able to develop a fully automated process to comply with this requirement at the time of trade reporting, or would the process include any manual efforts by traders or others?
- ▶ What, if any, implementation challenges may exist with respect to complying with this requirement?
- ▶ Is TRACE reporting the appropriate mechanism through which to obtain clearing arrangement information for transactions in U.S. Treasury securities from firms? If not, what alternative(s) would be more appropriate?
- ▶ What, if any, additional costs would commenters anticipate if FINRA were to require that members specify whether a trade in a U.S. Treasury security will be centrally or bilaterally cleared?
- ▶ What implementation timeframe would be appropriate to provide members with sufficient time to append a clearing arrangement indicator?

Multi-leg Transaction Modifiers

As discussed above, FINRA is considering adding modifiers to further distinguish various strategies and to indicate whether a transaction in a U.S. Treasury security is priced at the current market. Firms potentially could incur costs associated with identifying these transactions and appending the appropriate modifier.

FINRA requests comment on which strategies involving a transaction in a U.S. Treasury security should be identified in TRACE reporting, and how such strategies should be grouped. Specifically, FINRA is considering adding modifiers to identify the following types of strategies, grouped as follows:

- ▶ trades involving a series of nominals (*e.g.*, curves, butterflies, swap box, rolls, off-the-run vs off-the-run strategies);
- ▶ breakeven trades (*e.g.*, nominal and TIPS legs);

- ▶ trades against an interest rate swap (*e.g.*, asset swaps with U.S. Treasury securities, swap spreads); and
- ▶ trades hedging other security types (*e.g.*, hedging corporates, mortgage-backed securities, foreign sovereigns).
- ▶ Are these strategies identifiable for members when reporting U.S. Treasury securities transactions to TRACE? Are these the most relevant types of strategies to distinguish?
- ▶ Are there any additional or alternative strategies that should be identified in TRACE reports?
- ▶ Should these strategies be grouped differently?
- ▶ Could these strategies be further refined? For example, instead of reporting a series of nominals, would it be feasible for members to report the specific type of series involved (*e.g.*, curves, butterflies, swap box, rolls, off-the-run vs. off-the-run strategies)?
- ▶ For trades involving a series of nominals that seek to benefit from differences in the shape of the Treasury yield curve, FINRA requests comment on which transaction leg (the on-the-run leg or the off-the-run leg) is more likely to be executed at a locked or fixed price that could be off-market. Would it be feasible for the member that is conducting the multi-leg transaction to report the spread associated with these trades (in addition to the dollar price)?
- ▶ FINRA also requests comment on whether it would be feasible for the member that is conducting the multi-leg transaction (and therefore knows that all the legs are related) to report a unique and consistent identifier for each leg such that the separate legs could be linked together in the data.
- ▶ Rather than proposing additional modifiers to cover specific strategies that currently fall within the scope of the “.S” modifier, should FINRA instead provide additional guidance to clarify the appropriate scope and usage of the “.S” modifier?
- ▶ Members currently use the .H modifier to identify transactions in U.S. Treasury securities executed to hedge certain primary market transactions in a non-Treasury TRACE-eligible security. Should the use of this existing modifier be expanded to more broadly identify any U.S. Treasury securities trades executed to hedge other security types, rather than adopting a new additional hedging modifier? Should there be a minimum correlation requirement for hedged transactions?
- ▶ Please describe in detail any implementation challenges that may exist for firms that would result from required use of the additional modifiers.
- ▶ What, if any, concerns or additional costs would commenters anticipate if FINRA were to require adding these additional modifiers to further distinguish various strategies?
- ▶ What implementation timeframe would be appropriate to provide members with sufficient time to comply with additional strategy identification modifiers?

- ▶ What type of documentation would a firm retain to demonstrate to FINRA that a U.S. Treasury security trade was appropriately appended with the correct trading strategy modifier? What costs and challenges are associated with collecting and retaining such information and documentation?

FINRA is also considering, for each strategy category, that members further specify whether the U.S. Treasury securities transaction is executed at a price that is at or off of the current market. Firms potentially could incur costs associated with indicating whether prices are at or off market.

- ▶ Does identifying when a transaction is executed at a price that is at or off the current market present members with any operational or supervisory challenges?
- ▶ What, if any, concerns or additional costs would commenters anticipate if FINRA were to require that members specify whether the transaction in the U.S. Treasury security is priced at the current market?
- ▶ Please describe in detail any implementation challenges that may exist for firms that would result from such a requirement.
- ▶ Should FINRA only require firms to specify when a trade is away from the current market?

Standardized Price Reporting

FINRA is considering changes to require firms to standardize the method used for reporting the price of transactions in U.S. Treasury securities. To the extent that standardization of price reporting requires developing or updating TRACE reporting systems, firms could incur costs associated with the proposed requirement. Where a firm's systems already have the ability to report price either in dollar price, discount rate or margin, systems changes to standardize reporting should be less significant.

In reviewing transactions for different types of U.S. Treasury securities, FINRA found that, in the first half 2019, of the 701 MPIDs that reported Treasury bill transactions, 105 MPIDs reported transactions in discount rates only, 496 MPIDs reported transactions in dollar price only, and 100 MPIDs reported transactions in both discount rates and dollar price. Over the same period, of the 115 MPIDs that reported transactions in FRNs, 34 MPIDs reported in discount margin only, 58 MPIDs reported in dollar price only, and 23 MPIDs reported in both discount margin and dollar price. For all other U.S. Treasury security types, 679 MPIDs reported dollar prices only and 90 MPIDs reported in both discount rate and dollar price. Therefore, it appears that firms currently report primarily in dollar price.

- ▶ How should price reporting be standardized for Treasury bills and FRNs? Would firms prefer to report the dollar price for Treasury bills and FRNs, or would members prefer to report the discount rate for transactions in Treasury bills and the discount margin for transactions in FRNs?

- ▶ What, if any, implementation challenges may exist with respect to complying with a standardization requirement?
- ▶ What, if any, additional costs would commenters anticipate if FINRA were to require standardized price reporting?
- ▶ What implementation timeframe would be appropriate to provide members with sufficient time to comply with a standardized price reporting requirement? Would implementation times differ depending on the manner in which price reporting was standardized?

Report ATS Fees Separately

As discussed above, FINRA is considering requiring members to exclude per-transaction ATS fees from the price reported to TRACE, and to instead require that members report these fees separately.

- ▶ For ATS fees assessed on a per-transaction basis, do firms always know the ATS fees at the time of the trade report? If not, when would this information become available?
- ▶ Would the ability to separate ATS fees from price differ depending on the fee schedule or model adopted by the particular ATS? Would tiered pricing models affect a firm's ability to separately report an ATS's per-transaction fees?
- ▶ Would reporting price exclusive of ATS fees complicate trade reporting processes for firms? If so, how?
- ▶ What updates or changes to systems would be necessary to facilitate trade reporting in U.S. Treasury securities exclusive of ATS fees? What changes, if any, would be required of firms' subscribers? What changes, if any, would be required of ATSs?
- ▶ Would this requirement impact how an ATS assesses fees?
- ▶ What, if any, concerns or additional costs would commenters anticipate if FINRA were to require firms to exclude per-transaction ATS fees from the price reported to TRACE and to instead require firms to report these fees separately?
- ▶ What implementation timeframe would be appropriate to provide firms with sufficient time to comply with a requirement to report per-transaction ATS fees separately from the price?

General Questions

- ▶ As noted above, the U.S. Treasury securities TRACE reporting requirement currently only applies to FINRA members. What, if any, impacts might the above changes have in the aggregate on competition for execution services in U.S. Treasury securities, such as between member and non-member firms and between ATSs and other execution venues?

- ▶ Should the changes described above be implemented at the same time or should implementation be staggered? If the latter, in what order should the changes be implemented and why? Should some subset of the above changes be implemented together (*e.g.*, to take advantage of technological efficiencies)? If so, which ones and why?
- ▶ What, if any, other costs or economic impacts might be associated with the changes outlined here? Are any of these costs quantifiable? If so, please quantify.
- ▶ Are there any other issues specific to TRACE reporting of U.S. Treasury securities transactions that FINRA should consider?
- ▶ FINRA currently is contemplating that the changes described above would apply only to TRACE reporting of transactions in U.S. Treasury securities. Should any of the above changes also be considered for other types of TRACE-eligible securities? If so, which proposals should apply to which types of TRACE-eligible securities, and why?

Endnotes

1. Parties should submit in their comments only personally identifiable information, such as phone numbers and addresses, that they wish to make available publicly. FINRA, however, reserves the right to redact or edit personally identifiable information from comment submissions. FINRA also reserves the right to redact, remove or decline to post comments that are inappropriate for publication, such as vulgar, abusive or potentially fraudulent comment letters.
2. See SEA Section 19 and rules thereunder. After a proposed rule change is filed with the SEC, the proposed rule change generally is published for public comment in the Federal Register. Some proposed rule changes take effect immediately upon filing with the SEC. See SEA Section 19(b)(3) and SEA Rule 19b-4.

In addition, pursuant to SEA Section 19(b)(5), the SEC is required to, among other things, consult with and consider the views of the Secretary of the Treasury prior to approving a proposed rule filed by a registered national securities association that primarily concerns conduct related to transactions in government securities, except where the SEC determines that an emergency exists requiring expeditious or summary action and publishes its reasons therefor. See 15 U.S.C. 78s(b)(5).
3. See [Regulatory Notice 16-39](#) (October 2016). See also Securities Exchange Act Release No. 79116 (October 18, 2016), 81 FR 73167 (October 24, 2016) (Order Granting Accelerated Approval of File No. SR-FINRA-2016-027).
4. See Federal Reserve press release, [Federal Reserve Board announces plans to enter negotiations with FINRA to potentially act as collection agent of U.S. Treasury securities secondary market transactions data](#).
5. On March 10, 2020, FINRA began posting on its website weekly, aggregate data on the trading volume of U.S. Treasury securities reported to TRACE. See FINRA press release, [FINRA Launches New Data on Treasury Securities Trading Volume](#); see also Securities Exchange Act Release No. 87837 (December 20, 2019), 84 FR 71986 (December 30, 2019) (Order Approving File No. SR-FINRA-2019-028). Information on individual transactions in U.S. Treasury securities is not published or disseminated.
6. The Treasury Department, the Federal Reserve, the Federal Reserve Bank of New York, the SEC and the U.S. Commodity Futures Trading Commission comprise the Inter-Agency Working Group for Treasury Market Surveillance (IAWG or “official sector”).
7. See [Regulatory Notice 18-34](#) (October 4, 2018); see also Treasury Department, A Financial System that Creates Economic Opportunities: Capital Markets, at 80 (October 6, 2017) (“Capital Markets Report”) (recommending requiring ATs to identify customers in their TRACE reports).
8. See [remarks](#) of Deputy Secretary Justin Muzinich at the 2020 U.S. Treasury Market Conference (September 29, 2020).
9. Rule 6710(d) generally provides that the “Time of Execution” for a transaction in a TRACE-eligible security means the time when the Parties to a Transaction agree to all of the terms of the transaction that are sufficient to calculate the dollar price of the trade.
10. See Rule 6730.04.

11. See also TRACE Treasury FAQ #3.5.8:

Question: Our firm will use two separate systems to facilitate trade reporting of U.S. Treasury Securities for different business lines. One system ("System A") has the capability to capture the time of execution to the millisecond; however, the second system ("System B") will only capture the time of execution to the second. Will our firm be required to update System B to capture the time of execution to the millisecond?

Answer: No. The rule requires members to report the time of electronic executions to the finest increment of time captured in the member's system (*e.g.*, millisecond, microsecond), but at a minimum, in increments of seconds. Since the firm would be reporting the time of execution to the finest increment captured by each system, the firm would not need to make any updates to System B to comply with a finer time increment.

See Section 3.5 of FINRA's Frequently Asked Questions (FAQ) about the Trade Reporting and Compliance Engine (TRACE).

12. TRACE system hours are 8:00:00 a.m. Eastern Time through 6:29:59 p.m. Eastern Time on a business day, unless otherwise announced by FINRA. See FINRA Rule 6710(t).
13. Rule 300 of Regulation ATS generally provides that an "alternative trading system" means "any organization, association, person, group of persons, or system: (1) that constitutes, maintains, or provides a market place or facilities for bringing together purchasers and sellers of securities or for otherwise performing with respect to securities the functions commonly performed by a stock exchange; and (2) that does not: (i) set rules governing the conduct of subscribers other than the conduct of such subscribers' trading on such system; or (ii) discipline subscribers other than by exclusion from trading." See 17 C.F.R. 242.300(a). Certain ATSs are exempt from the requirements of Regulation ATS. See 17 C.F.R. 242.301(a).
14. See Securities Exchange Act Release No. 90019 (Sept. 28, 2020) (Regulation ATS for ATSs that Trade U.S. Government Securities, NMS Stock, and Other Securities; Regulation SCI for ATSs that Trade U.S. Treasury Securities and Agency Securities; and Electronic Corporate Bond and Municipal Securities Markets) ("ATS-G Release").
15. See *id.* See also FIMSAC, [Recommendation for the SEC to Review the Framework for the Oversight of Electronic Trading Platforms for Corporate and Municipal Bonds](#) (July 16, 2018). FINRA notes that, in its concept release, the SEC also solicited comment on electronic trading platforms for government securities. See ATS-G Release at 201 n.391 ("While this concept release is focused on electronic trading platforms for corporate debt and municipal debt, to the extent commenters believe comments are relevant to electronic trading platforms for other types of debt securities, including government securities, that information would be helpful to the Commission.").
16. FINRA previously has provided similar flexibility to firms in identifying desks that were separated by information barriers for purposes of compliance with the customer order protection rule. See, *e.g.*, Securities Exchange Act Release No. 34-65692 (November 4, 2011), 76 FR 70195 (November 10, 2011) (Notice of Filing of File No. SR-FINRA-2011-063) (requiring firms relying on the No-Knowledge Exception under Supplementary Material .02 to Rule 5320 to report the unique identification of any appropriate information barriers in place at the department within the firm where the order was received or originated).

17. For purposes of the new indicator, a transaction in a U.S. Treasury security would be considered to be centrally cleared if the transaction is submitted for clearing to a central counterparty (CCP), such as the Fixed Income Clearing Corporation (FICC). A CCP is an entity that interposes itself between counterparties, becoming the buyer to every seller and the seller to every buyer so that the parties do not directly face each other through settlement. For a given transaction, a CCP performs a variety of services, including matching trade details, guaranteeing the transaction, netting obligations and novating the transaction. All other transactions in U.S. Treasury securities that are not submitted to a CCP for clearing would be considered bilaterally cleared, including transactions involving interdealer brokers, clearing agents or custodial banks that do not clear through a CCP.
18. FINRA Rule 11900 (Clearance of Corporate Debt Securities) generally requires that members use the facilities of a registered clearing agency for clearing transactions between members in corporate debt securities where the member or its agent is a participant in a registered clearing agency. This requirement does not apply to transactions in U.S. Treasury securities.
19. FICC is an SEC-registered subsidiary of the Depository Trust and Clearing Corporation (DTCC) that provides fixed income clearing services, including real-time trade matching, risk management and netting.
20. See Joint Staff Report, IAWG, The U.S. Treasury Market on October 15, 2014 (July 13, 2015).
21. See *id.*
22. For example, FICC amended its Government Securities Division (GSD) Rulebook to expand the categories of FICC members who can sponsor their clients to clear through FICC and to permit sponsored clients to trade with counterparties other than their sponsors. These rule changes are intended, in part, to enable a greater percentage of transactions in U.S. Treasury securities to centrally clear through FICC. See Securities Exchange Act Release No. 85470 (March 29, 2019), 84 FR 13328 (April 4, 2019) (Order Granting Approval of File No. SR-FICC-2018-013); Securities Exchange Act Release No. 84951 (December 21, 2018), 83 FR 67801 (December 31, 2018) (Notice of Filing of File No. SR-FICC 2018-013). FICC also modified the fee structure for its GSD in an effort to reduce pricing complexity and make central clearing more accessible to additional market participants. See Securities Exchange Act Release No. 83401 (June 8, 2018), 83 FR 27812 (June 14, 2018) (Order Granting Approval of File No. SR-FICC-2018-003); Securities Exchange Act Release No. 83153 (May 2, 2018), 83 FR 20882 (May 8, 2018) (Notice of Filing of File No. SR-FICC-2018-003). See also DTCC, Central Clearing in the U.S. Treasury Cash Market (May 2019).
23. See, e.g., Capital Markets Report. See also Treasury Market Practices Group (TMPG), Best Practice Guidance on Clearing and Settlement (July 11, 2019); TMPG, Best Practices for Treasury, Agency Debt, and Agency Mortgage-Backed Securities Markets (July 11, 2019) (updated to incorporate recommendations relating to clearing and settlement practices); TMPG, White Paper on Clearing and Settlement in the Secondary Market for U.S. Treasury Securities (July 11, 2019). The TMPG is a group of market professionals sponsored by the Federal Reserve Bank of New York. The TMPG has released several recent publications regarding clearance and settlement in the U.S. Treasury securities market.

24. FINRA recently adopted a new modifier for certain U.S. Treasury securities hedge transactions. However, the use of that modifier is limited to identifying a transaction executed to hedge a List or Fixed Offering Price Transaction or Takedown Transaction. *See* Securities Exchange Act Release No. 86178 (June 21, 2019), 84 FR 30783 (June 27, 2019) (Order Approving File No. SR-FINRA-2019-014).
25. FINRA would retain the current .B modifier, which would continue to identify a transaction that is part of a series where at least one of the transactions involves a futures contract.
26. *See* TRACE Treasury FAQ #3.5.25:
- Question: Certain U.S. Treasury Securities, including Treasury bills and Floating Rate Notes (FRNs), are issued at a discount to face value and mature at face value rather than making interest payments. These securities are quoted and traded in terms of their discount rate (discount margin for FRNs) or interest rate based on a 360-day year, even after the auction and issue dates of the securities. The interest rate is a function of the purchase price, the face value of the security, and the time remaining until maturity. How should firms report the “price” of these securities that trade based on a discount rate/margin?
- Answer: For transactions in U.S. Treasury Securities that trade based on discount rate/ margin, either the discount rate/margin or the dollar price of the transaction may be reported as the price. When reporting the discount rate/margin in the Price field, the price type of “Yield” should be selected in the Price Type field. When reporting the discount rate or discount margin, percentage units should be entered in the price field (*e.g.*, a discount rate of 0.97 percent should reflect an entered price of 0.97). Firms choosing to report the dollar price of the transaction instead of the discount rate/ margin must use the price type of “Decimal.”
- See* Section 3.5 of FINRA’s Frequently Asked Questions (FAQ) about the Trade Reporting and Compliance Engine (TRACE).
27. *See* Treasury Department press release, [U.S. Department of the Treasury, Statement on Trade Reporting in the U.S. Treasury Market](#) (May 16, 2016). *See also* SEC press release, [Statement on Trade Reporting in the U.S. Treasury Market](#).
28. If a change to permissible pricing conventions for Treasury bills and FRNs is adopted, FINRA would revise the guidance provided in existing FAQ #3.5.25 consistent with the new approach.
29. To the extent firms in whole or in part pass these costs on to customers, customers may choose to trade using non-members who do not have TRACE reporting obligations. However, such substitutability would depend on, among other things, whether there are regulatory or practical limitations on where customers and institutions may trade. For example, some customers may find it infeasible or impossible to trade through a bank. In addition, search and other costs may further impose a burden on customers that may limit substitution.
30. FINRA has analyzed the number of transactions executed on or through an ATS because these are a readily identifiable subset of all electronically executed transactions.
31. *See Notice to Members 04-90* (December 8, 2004) (NASD Issues Interpretive Guidance Regarding Various Trade Reporting and Compliance Engine (TRACE) Rules); *see also* TRACE For Treasuries User Guide.

32. This figure is based on an analysis of transactions executed on business days between 8:00 a.m. and 5:00 p.m. in the first half of 2019.
33. Trades by these 441 MPIDs accounted for more than 99 percent of dollar trading volume, of which 85.7 percent of the dollar trading volume was reported within 60 minutes.
34. See ATS-G Release, *supra* Note 14.
35. See *id.* at 199-209.
36. See Bank Holding Company Act Release No. BHCA-1, [Prohibitions and Restrictions on Proprietary Trading and Certain Interests In, and Relationships With, Hedge Funds and Private Equity Funds](#) (December 10, 2013), (original adoption of Volcker Rule); see also Bank Holding Company Act Release No. BHCA-7, [Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships With, Hedge Funds and Private Equity Funds](#) (September 18, 2019) (amendments to Volcker Rule, including changes to definition of “trading desk”).

EXHIBIT 2b

**Alphabetical List of Written Comments
Regulatory Notice 20-43**

1. Yesenia Alvarez, (“Alvarez”) dated February 17, 2021
2. Stephen John Berger, Citadel, (“Citadel”) (February 22, 2021)
3. Ted Bragg, Execution Access, LLC, (“EA”) (February 16, 2021)
4. Jennifer W. Han, Managed Funds Association, (“MFA”) (February 22, 2021).
5. Robert Laorno, ICE Bonds Securities Corporation, (“ICE Bonds”) (February 22, 2021)
6. Joanna Mallers, FIA Principal Traders Group, (“FIA PTG”) (February 22, 2021)
7. Howard Meyerson, Financial Information Forum, (“FIF”); (February 19, 2021)
8. Gerard O’Reilly, Dimensional Fund Advisors LP, (“Dimensional”) (February 22, 2021)
9. Rob Toomey & Charles De Simone, Securities Industry and Financial Markets Association, (“SIFMA”) (February 22, 2021)

Exhibit 2c

Yesenia Alvarez Comment On Regulatory Notice 20-43

Yesenia Alvarez

N/A

Well done👍

February 22, 2021

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

Re: Regulatory Notice 20-43: Enhancements to TRACE Reporting for U.S. Treasury Securities

Citadel appreciates the opportunity to provide comments to the Financial Industry Regulatory Authority (“FINRA”) on its proposal to enhance the regulatory reporting regime for U.S. Treasury securities (the “Proposal”).¹

Citadel has consistently supported increasing the quality of U.S. Treasury market data that is made available to the official sector in order to improve monitoring, surveillance, and analytical capabilities. In addition, with comprehensive data, regulators and policymakers are better equipped to evaluate additional policy proposals to modernize the regulatory framework applicable to Treasuries.

This Proposal would enhance the current regulatory reporting regime by improving the timeliness of reported data and by specifically identifying, among others, whether a transaction (a) is executed on a multilateral trading venue that is not registered as an alternative trading system (“ATS”) and/or (b) is intended to centrally clear. These aspects of the Proposal, in particular, directly support the ongoing consideration of policy proposals designed to enhance transparency and resiliency in the U.S. Treasury market, including introducing real-time public reporting, rationalizing the oversight of multilateral trading venues, and expanding central clearing in both the cash and repo markets. Therefore, we recommend that FINRA prioritize the implementation of these specific aspects of the Proposal and further improve the timeliness of reported data by harmonizing with reporting requirements for other fixed income instruments.

I. Improving the Timeliness of Reported Data

The Proposal would require secondary market Treasury transactions to be reported to FINRA within 60 minutes after execution, in contrast to the current end-of-day reporting requirements. We agree that this proposed reduction in reporting timeframes would provide the official sector with access to more timely data regarding intraday pricing and liquidity dynamics. However, we recommend that FINRA take this opportunity to further improve the timeliness of reported data by harmonizing with reporting requirements for other fixed income instruments. In particular:

- Corporate bonds and agency debt securities generally must be reported to FINRA within 15 minutes of execution;²

¹ <https://www.finra.org/rules-guidance/notices/20-43>.

² See FINRA Rule 6730.

- Interest rate swaps must be reported to a swap data repository “as soon as technologically practicable” after execution;³ and
- Treasury futures are generally reported in real-time.

Given these existing requirements for other fixed income instruments, market participants should be well-situated to comply with similar requirements in the Treasury market. Notably, Treasury market participants commonly trade other fixed income instruments, and therefore have already established the infrastructure necessary to comply with real-time reporting requirements. These existing operational and technological capabilities are evidenced by the fact that FINRA members already report approximately 95% of Treasury transactions within an hour after execution, despite not being required to report until end-of-day.⁴ The U.S. Treasury market is the deepest and most liquid government securities market in the world, and market participants should be reporting data to the official sector in accordance with timeliness standards that are at least on par with requirements for other fixed income instruments.

In addition, adopting reporting timeframes that are harmonized with those of other fixed income instruments is warranted given the ongoing consideration of whether to publicly report secondary market Treasury transactions. The responses to the 2016 Treasury RFI⁵ demonstrate that a diverse group of market participants support increasing post-trade transparency in the Treasury market, including buy-side firms,⁶ agency brokers,⁷ trading venues,⁸ clearing venues,⁹ electronic market makers,¹⁰ and academics.¹¹ While there are details to resolve regarding the implementation of a public reporting regime, it is clear that a decision to require the real-time public reporting of any Treasury transactions (*e.g.* on-the-runs) will require that trading activity be reported to FINRA as soon as possible following execution. As a result, it would be preferable if the new reporting timeframes established by the Proposal accommodated the potential for public reporting without requiring yet further amendment (particularly if an extended implementation timeline is contemplated). Harmonizing the reporting timeframes with those of other fixed income instruments, where public reporting has already been implemented, would therefore yield this additional benefit.

³ See CFTC Reg. §43.3(a).

⁴ Proposal at page 10.

⁵ Available at: <https://www.regulations.gov/docket?D=TREAS-DO-2015-0013>.

⁶ See Letters from the Managed Funds Association and Citadel LLC.

⁷ See Letter from Convergex.

⁸ See Letter from Nasdaq, Inc.

⁹ See Letter from DTCC.

¹⁰ See Letters from Virtu Financial, FIA PTG, and the Modern Markets Initiative.

¹¹ See Letters from Joel Hasbrouck and Eric Budish.

II. Identifying Trading Activity on Multilateral Venues

Trading venue oversight is an important area of focus in the ongoing review of the regulatory framework applicable to U.S. Treasuries. Therefore, it is important for the official sector to have comprehensive data regarding the trading activity that is occurring on multilateral trading venues, regardless of whether the venue is currently registered as an ATS.

At the moment, an ATS that solely trades government securities and is registered as a broker-dealer or is a bank is exempt from the requirement to register as an exchange or an ATS with the Securities and Exchange Commission (“SEC”).¹² The SEC has recently proposed to remove this exemption, which would increase the number of multilateral Treasury trading venues registered as an ATS.¹³ However, even if this proposal is finalized, it is unclear whether the SEC will extend the ATS registration requirement to multilateral request-for-quote (“RFQ”) venues that operate in the dealer-to-customer segment of the market.¹⁴ Data shows that the dealer-to-customer segment of the market accounts for approximately 50% of total market volume,¹⁵ and that multilateral RFQ venues have significant market share.¹⁶

By requiring market participants to report the identity of non-ATS electronic trading platforms on which Treasury transactions are executed, the FINRA Proposal ensures that the official sector will have comprehensive data regarding trading volumes on multilateral venues operating in both the dealer-to-dealer and dealer-to-customer segments of the market. The definition of a “non-ATS trading platform” should clearly refer to multilateral trading venues that are not registered as an ATS,¹⁷ including platforms that facilitate multilateral execution by allowing participants to exchange information regarding the essential terms of a transaction, negotiate the terms of a trade, or to respond to actionable indications of interest.

III. Identifying Whether a Transaction is Centrally Cleared

Another important area of focus in the ongoing review of the regulatory framework applicable to U.S. Treasuries involves central clearing, and efforts to expand access in both the cash and repo

¹² See 17 CFR 242.301(a)(4)(i) and (ii)(A).

¹³ 85 FR 87106, available at: <https://www.govinfo.gov/content/pkg/FR-2020-12-31/pdf/2020-21781.pdf>.

¹⁴ See *id.* at 87156. See also U.S. Securities and Exchange Commission, Fixed Income Market Structure Advisory Committee, Preliminary Recommendation Regarding Defining “Electronic Trading” for Regulatory Purposes (October 2020) at FN 2, available at: <https://www.sec.gov/spotlight/fixed-income-advisory-committee/fimsac-preliminary-recommendation-re-definition-of-electronic-trading.pdf> and Remarks at U.S. Treasury Market Conference, Commissioner Elad L. Roisman (Sept. 29, 2020), available at: <https://www.sec.gov/news/speech/roisman-us-treasury-conference-2020-09-29>.

¹⁵ See <https://www.finra.org/filing-reporting/trace/data/trace-treasury-aggregates>.

¹⁶ “The Bond-Trading Revolution Is Real This Time,” Feb. 10, 2021, available at: <https://www.bloombergquint.com/gadfly/the-bond-trading-revolution-is-real-this-time>.

¹⁷ This formulation avoids needing to determine whether a platform meets the current definition of an ATS, a determination which can be subject to some uncertainty.

markets.¹⁸ Estimates indicate that less than 25% of secondary cash market Treasury transactions are centrally cleared.¹⁹ It is important for the official sector to have comprehensive data regarding current clearing rates, and whether industry efforts to expand access to central clearing are delivering results.

Therefore, we support the Proposal requiring market participants to identify whether a Treasury transaction is intended to be centrally cleared. While this may require some firms to upgrade internal systems, it is important to note that similar clearing flags have been successfully implemented in multiple jurisdictions for other fixed income instruments that are transacted on a cleared and uncleared basis, notably OTC derivatives.²⁰ As such, the Proposal should not raise novel compliance issues for member firms.

IV. Other Aspects of the Proposal

Consistent with the objective of increasing the quality of data made available to the official sector, we support several other aspects of the Proposal, including (a) increasing the granularity of execution timestamps, (b) adding desk identifiers, and (c) standardizing how the transaction price field is reported. In turn, certain other aspects of the Proposal require additional consideration and refinement, such as (i) reporting the method of execution, (ii) providing additional granularity regarding package transactions, and (iii) disclosing ATS fees separately.

As FINRA moves to finalize the Proposal, we recommend that priority be given to reporting enhancements that directly support the ongoing consideration of policy proposals designed to increase transparency and resiliency in the U.S. Treasury market. This includes improving the timeliness of reported data and by specifically identifying whether a transaction is executed on a multilateral trading venue and/or is centrally cleared.

* * * * *

¹⁸ For example, the U.S. Treasury’s October 2017 Capital Markets Report concluded that “Treasury market clearing has become bifurcated, reducing efficiency and presenting potential risks. Our regulatory regime needs to keep pace with these market developments, and Treasury recommends further study of potential solutions by regulators, market participants, and other stakeholders.” See <https://www.treasury.gov/press-center/press-releases/Documents/A-Financial-System-Capital-Markets-FINAL-FINAL.pdf> at page 8. See also “Enhancing Liquidity of the U.S. Treasury Market Under Stress,” Liang, N., Parkinson, P. (Dec. 16, 2020), available at: https://www.brookings.edu/wp-content/uploads/2020/12/WP72_Liang-Parkinson.pdf and “Still the World’s Safe Haven? Redesigning the U.S. Treasury Market After the COVID-19 Crisis,” Duffie, D., (June 2020), available at: https://www.brookings.edu/wp-content/uploads/2020/05/WP62_Duffie_v2.pdf.

¹⁹ See “Still the World’s Safe Haven? Redesigning the U.S. Treasury Market After the COVID-19 Crisis,” Duffie, D., (June 2020) at page 14, available at: https://www.brookings.edu/wp-content/uploads/2020/05/WP62_Duffie_v2.pdf.

²⁰ See CFTC Part 43, Appendix A, Data Element #1, available at: https://www.ecfr.gov/cgi-bin/text-idx?SID=4230e65c36bc32e95832ealca651ebb1&mc=true&node=ap17.2.43.0000_0nbspnbspnbspn.a&rgn=div9 and MiFID II RTS 2, Annex II, Table 2 at page 7, available at: https://ec.europa.eu/finance/securities/docs/isd/mifid/rtts/160714-rtts-2-annex_en.pdf.

We appreciate the opportunity to provide comments to FINRA on further enhancing the reporting regime for U.S. Treasuries. Please feel free to call the undersigned at (646) 403-8200 with any questions regarding these comments.

Respectfully,

/s/ Stephen John Berger

Managing Director

Global Head of Government & Regulatory Policy

February 16, 2021

Via Email Only

Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA 1735 K Street, NW
Washington, DC 20006-1506
pubcom@finra.org

Re: *Regulatory Notice 20-43 Trace Proposal*

Dear Ms. Piorko Mitchell:

Execution Access LLC (EA) respectfully submits this letter to FINRA to comment on the above referenced proposal regarding potential enhancements to the information reported to FINRA's TRACE facility regarding transactions in U.S. Treasury securities. Specifically, potential changes to TRACE reporting for U.S. Treasury securities that would require: (1) more granular execution timestamps; (2) a shortened trade reporting timeframe; (3) new indicators to identify non-alternative trading system (ATS) trading venues and method of execution, the trading unit within a firm executing a trade, and the method used to clear and settle a transaction; (4) new modifiers to identify additional multi-leg transactions and whether a transaction is priced at the current market; (5) standardized price reporting; (6) separate reporting of per-transaction ATS fees; and (7) whether the proposed changes should apply to all TRACE-eligible securities uniformly, if applicable..

EA generally supports the proposal. Increased operational efficiencies related to fixed income and government securities Trace Reporting would benefit the industry. Our comments to each proposal section are detailed below:

I. Execution Timestamps

We understand that FINRA is considering revising the existing rule to require that members report transactions executed electronically in U.S. Treasury securities to TRACE in the finest increment of time captured by the firm's execution system, but at a minimum, in increments of a second. Where a firm executes transactions in U.S. Treasury securities through an external system, FINRA is considering requiring that firms report such transactions to TRACE consistent with the Time of Execution communicated by the execution venue.

EA supports FINRA's efforts to normalize Time of Execution information received.

We also support the general language in Proposed Changes of the Execution Timestamp section . However, the issue with this language is that it states worse case but not best case. It should indicate best and worst boundaries. The worst being 1 second, and best 1 microsecond as currently supported by TRACE facility.

II. Reporting Timeframe Reduction

We understand that FINRA is considering amending the current rules to provide that:

- for transactions executed on a business day at or after 12:00:00 a.m. through 7:59:59 a.m., firms would be required to report the trade the same day no later than 60 minutes after the TRACE system opens.
- for transactions executed on a business day at or after 8:00:00 a.m. through 6:29:59 p.m., firms would be required to report the trade within 60 minutes of the Time of Execution, except that, for transactions executed on a business day less than 60 minutes before 6:30:00 p.m., firms would be required to report the trade no later than 60 minutes after the TRACE system opens on T+1 (and, if reported on T+1, designated “as/of” with the date of execution).
- for transactions executed on a business day at or after 6:30:00 p.m. through 11:59:59 p.m., or for trades executed on a Saturday, a Sunday, a federal or religious holiday, or other day on which the TRACE system is not open at any time during that day, firms would be required to report the trade on T+1 no later than 60 minutes after the TRACE system opens (and must designate the trade “as/of” and include the date of execution).

EA supports FINRA’s proposal to normalize TRACE reporting. NFI already applies this timeframe. 60 minutes is significant step forward and yet still allows time to resolve any system issues without exceeding the required parameters. For transactions executed at or after 6:30:00 p.m. through 7:59:59 a.m., EA already reports trades no later than 60 minutes after the TRACE system opens. For transactions executed at or after 8:00:00 a.m. through 6:29:59 p.m., EA reports as soon as availability of reporting facility will allow.

III. Platform Information and Trading Method

We understand that FINRA is considering changes to require members to report information regarding the identity of any non-ATS electronic trading platform through which a transaction in a U.S. Treasury security occurs as well as the method of execution (i.e., voice or electronic) of a transaction in a U.S. Treasury security. In addition, to capture additional information about the trading that occurs through these platforms, FINRA is considering requiring members, when reporting transactions in U.S. Treasury securities to TRACE, to populate a separate field to identify the non-ATS platform on or through which it transacted. FINRA is considering requiring members, when reporting transactions in U.S. Treasury

securities to TRACE, to populate a separate field to identify the non-ATS platform on or through which it transacted.

For purposes of the proposal, a “non-ATS trading platform” would include any electronic system that does not meet the definition of an ATS under SEC Regulation ATS, through which multiple parties facilitate orders, request-for-quotes (RFQs), or negotiate the terms of a trade in a U.S. Treasury security. These platforms currently do not have a separate MPID and are not otherwise identifiable in TRACE reports. Under the proposal, members would be required to identify the non-ATS trading platform for those transactions that originated or occurred through the platform. To provide consistent identification of these platforms across TRACE reports, FINRA would provide to reporters a list of non-ATS trading platform identifiers for use in populating the new field. If a member trades in a U.S. Treasury security through a platform not yet included in the TRACE list, the member would be required to notify FINRA so that the platform can be added to the list of identifiers.

EA supports FINRA’s proposal requiring members, when reporting in to TRACE, to populate a separate TRACE field to identify U.S. Treasury securities transactions effected on, or through, a non-ATS platform. EA obtained a separate MPID to distinguish U.S. Treasury securities transactions effected on, or through, the non-ATS platform vs those effected on the ATS platform and supports FINRA’s proposal to use a unique identifier for each non-ATS trading platform used for transactions in U.S. Treasury Securities. Such a requirement only seems logical.

EA supports the SEC proposed amendments to SEC Regulation ATS that would eliminate the existing exemption for an ATS that trades only government securities, including U.S. Treasury securities provided that all market participants that effect transactions in Treasuries be required to report those transactions. Increased diversity in the government securities market means that platforms are no longer strictly dealer-to-dealer and the exemption for Treasury-only platforms may have little to no relevance today. Transparency regarding pricing, market activity and market quality promotes healthy competition in the market place.

IV. Desk Identifiers

We understand that FINRA is considering adding a new trading desk or unit identifier field for U.S. Treasury securities reporting to identify the specific desk or unit within a member firm executing the transaction. Member counterparties currently are identified in TRACE by the MPID submitted in the transaction report. Specifically, FINRA would require members to assign and enter an additional identifier for each desk or unit at the firm that executes transactions in U.S. Treasury securities. Firms would provide FINRA with a list of all desks/units within the firm that may trade a U.S. Treasury security, along with the firm-generated identifier for each (within the alpha or numeric parameters specified by FINRA). Members also would be required to keep FINRA informed of any change to the member’s desk or unit identification assignments by providing FINRA with the updated assignments by the next business day following the implementation of such change. FINRA would not require that each trading desk or unit have a separate MPID, nor would firms be required to modify their existing organization in any way.

Allowing each firm to specify the relevant desks and units and assign identifiers provides firms with flexibility and, therefore, accounts for varying structures across different member firms.

EA is concerned that trading desk identifiers could cause reconciliation issues if an ATS would be required to report as such. We are fine with member firms separately providing that to the regulator but we do not believe this is applicable for the ATS.

V. Clearing Arrangement Indicator

We understand that FINRA is considering requiring members to append a new indicator that would identify whether a transaction in a U.S. Treasury security will be cleared centrally or bilaterally. We understand that it is FINRA's view that the method by which a transaction is cleared and settled—specifically whether the parties to the transaction use a central clearing counterparty—affects the degree and type of risk the parties bear (e.g., counterparty financial exposure). Although recent efforts have been made to expand the scope of transactions that are centrally cleared through FICC, market developments in recent years have prompted calls for greater study of the clearing practices and counterparty risk in this market.

EA supports FINRA's proposal to append a new indicator that would identify whether a transaction in a U.S. Treasury security is cleared centrally or bilaterally. This would be a positive for venues and the overall market structure. Of note, we already have the indicator if the client is clearing FICC, FedWire or PairOff.

VI. Multi-leg Transaction Modifiers

We understand that FINRA is considering whether additional modifiers to identify specific categories of multi-leg transactions involving a U.S Treasury security are appropriate, as well as an additional modifier to indicate whether the U.S. Treasury security transaction is priced at or off market. Currently, members are required, among other things, to identify a transaction in a U.S. Treasury security that is: (a) part of a series of transactions where at least one of the transactions involves a futures contract with the .B modifier; and (b) part of a series of transactions where one or more legs may not be priced based on the current market with the .S modifier.

Further, FINRA is considering adding modifiers to further distinguish various strategies, as well as to provide information as to whether the transaction in the U.S. Treasury security is priced at the current market.

EA supports FINRA's proposal as we understand that it is FINRA's intention to group strategies in broad categories as detailed in the proposal. Further, we understand that with respect to swaps and similar strategies FINRA understands that certain legs of the transaction will not be sensitive to market price and may be off market.

VII. Standardized Price Reporting

We understand that FINRA is considering whether it is appropriate to require that firms report the discount rate for transactions in Treasury bills and the discount margin for transactions in FRNs, rather than also being permitted to report the dollar price in these instances. Currently, members are required to report the price of a transaction or the elements necessary to calculate the price. Certain U.S. Treasury securities are traded and quoted using different price conventions, including Treasury bills (which use a discount rate) and floating rate notes (FRNs) (which use a discount margin). FINRA has issued guidance to members that, in such cases, members may report the price of a transaction as either the discount rate or discount margin, but members are still permitted to report the dollar price. As a result, FINRA is considering changes to require further standardization of the measure used to report price in these types of U.S. Treasury securities.

EA supports FINRA's proposal to standardize price reporting such that firms report the discount rate for transactions in Treasury bills and the discount margin for transactions in FRNs, rather than also being permitted to report the dollar price in these instances.

VIII. Report ATS Fees Separately

We understand that FINRA is considering requiring that members report per-transaction ATS fees separately from the price when reporting transactions in U.S. Treasury securities to TRACE. Thus, under the proposal, instead of reflecting any per-transaction fee in the price, members would report the price (exclusive of such fees) and include these fees in a new, separate, per-transaction, ATS fee field. We appreciate that FINRA understands that ATSs may assess fees to subscribers in a variety of ways—e.g., an ATS may bill subscribers on a monthly basis or may charge a per transaction fee. Further, per-transaction fee arrangements may differ among subscribers, resulting in different fees being assessed to each counterparty to a trade.

EA would support separating the fee (mark up/ mark down) if it was only intended for a simplification of matching more trades efficiently. We do not support if FINRA intends to use this data to understand the economics of trading as "in price" fees are only a subset of potential revenues. In addition we expect FINRA to alert member firms of this change. We are concerned that member firms only pass along our execution messages. We do provide member firms with all the information that would possibly be required if a change was going to be made.

IX. Preliminary Economic Impact Analysis and Request for Comments

We understand that FINRA requests comment on all aspects of this Notice, including the costs and burdens associated with these potential enhancements, as well as whether changes described in the proposal would apply only to TRACE reporting of transactions in U.S. Treasury securities. Specifically, FINRA has asked:

- What, if any, impacts might the above changes have in the aggregate on competition for execution services in U.S. Treasury securities, such as between member and non-member firms and between ATSS and other execution venues?
- Should the changes described above be implemented at the same time or should implementation be staggered? If the latter, in what order should the changes be implemented and why? Should some subset of the above changes be implemented together (e.g., to take advantage of technological efficiencies)? If so, which ones and why?
- What, if any, other costs or economic impacts might be associated with the changes outlined here? Are any of these costs quantifiable? If so, please quantify.
- Are there any other issues specific to TRACE reporting of U.S. Treasury securities transactions that FINRA should consider?

EA suggests that the proposed rule changes be subdivided into at least 2 groups and phased in at differing intervals to mitigate the economic and operational burden on industry participants.

Respectfully,

Ted Bragg

Ted Bragg- CEO Execution Access, LLC

cc: Racquel Russell
Office of General Counsel
FINRA
1735 K Street, NW
Washington, DC 20006-1506

Patrick Geraghty
Vice President, Market Regulation
FINRA
1735 K Street, NW
Washington, DC 20006-1506

February 22, 2021

Via Electronic Mail: pubcom@finra.org

Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1500

Re: Regulatory Notice 20-43; Enhancements to TRACE Reporting for U.S. Treasury Securities

Dear Ms. Mitchell:

Managed Funds Association¹ (“MFA”) appreciates the opportunity to submit comments in response to FINRA’s request for comment on proposed enhancements to the information reported in FINRA’s TRACE reporting for U.S. Treasury Securities (the “**Proposal**”).² We are pleased to see that the proposed reporting enhancements, based on recommendations from the Treasury Department, are designed to improve the quality of the data available, thereby making it more useful for regulatory purposes. We support this general objective and urge FINRA to go further in requiring market participants to report Treasury market transactions within 15 minutes. We are of the view that higher quality data will improve regulators’ oversight of the Treasury markets and allow regulators to better understand market events in as close to real-time as possible.

I. MFA Supports Enhancements to TRACE Treasury Reporting

MFA supports efforts to improve the quality of TRACE Treasury data reporting. Specifically, we believe that shortening the trade reporting timeframe³ and adding a clearing arrangement indicator to mark the method by which a transaction is cleared⁴ will enhance regulators’ understanding of the Treasury markets and move towards harmonizing the data regime on Treasuries with other fixed income markets.

FINRA began receiving TRACE Treasury data in 2017, and it has already proven to be a valuable source of information. TRACE data has helped improve regulators’ and the public’s understanding of Treasury

¹ Managed Funds Association (“MFA”) represents the global alternative investment industry and its investors by advocating for public policies that foster efficient, transparent, fair capital markets, and competitive tax and regulatory structures. MFA supports member business strategy and growth via proprietary access to subject matter experts, peer-to-peer networking, and best practices. MFA’s more than 140 member firms collectively manage nearly \$1.6 trillion across a diverse group of investment strategies. Member firms help pension plans, university endowments, charitable foundations, and other institutional investors to diversify their investments, manage risk, and generate attractive returns over time. MFA has a global presence and is active in Washington, London, Brussels, and Asia, supporting a global policy environment that fosters growth in the alternative investment industry.

² See FINRA Regulatory Notice 20-43, (December 23, 2020), <https://www.finra.org/sites/default/files/2020-12/Regulatory-Notice-20-43.pdf>.

³ See *id.* at p. 4.

⁴ See *id.* at p. 6.

market structure⁵ and trading in Treasury markets.⁶ In particular, it was lauded by the Treasury department as being “a critically important resource” during the most acute stages of the COVID-19 induced market crisis in March of 2020.⁷ However, regulators have consistently noted limitations in the data that could be addressed with the reporting enhancements in the Proposal.⁸

MFA believes it is important to shorten the delay in TRACE reporting. In fact, FINRA should mandate that transactions be reported within fifteen minutes. Corporate bonds must be reported within fifteen minutes and regulators should have the same timely data with respect to the Treasury markets. Timely data is critical for regulators to perform their supervisory functions, especially in times of extreme market volatility. MFA would welcome the opportunity to comment on potential further use of the data, such as public dissemination, once the regulatory community has assessed the use of more timely data.

MFA also supports enhancing TRACE data by adding a clearing arrangement indicator to TRACE transaction reports. The benefits of central clearing are well documented, such as leading to greater market transparency, liquidity, and resiliency, and decreased credit and operational risks.⁹ For a variety of reasons, central clearing for dealer-to-customer trading in the U.S. Treasury markets has not evolved. While clearing and operational risks related to bilateral clearing can be effectively managed, we believe it is important for regulators and the industry to work together to develop an effective dealer-to-customer clearing model for both cash and repo transactions. Adding a clearing indicator to TRACE reporting would also facilitate monitoring the development of various clearing arrangements in the market.

II. Federal Reserve Should Authorize Bank TRACE Data Collection

MFA supports the Federal Reserve’s parallel effort to bring banks into the TRACE Treasury reporting system. Currently only FINRA member firms report Treasury market activity to TRACE. Federal Reserve officials have repeatedly raised the prospects of requiring the banks they supervise to report as well.¹⁰ Currently, the Federal Reserve has a Request for Comment on the implementation of this proposal.¹¹ MFA

⁵ Brainard, Lael, “The Structure of the Treasury Market: What Are We Learning?” (“Lael Brainard Speech”), The Evolving Structure of the U.S. Treasury Market Conference, 3 December 2018, <https://www.federalreserve.gov/newsevents/speech/brainard20181203a.htm>. “FINRA’s collections are limited only to its members. The Federal Reserve is close to finalizing an agreement with FINRA to act as our agent in expanding the collection of Treasury transactions to key banks that are also active in this market.”

⁶ See Brain, Doug, et al. “Breaking Down TRACE Volumes Further.” Liberty Street Economics, 29 Nov. 2018., <https://libertystreeteconomics.newyorkfed.org/2018/11/breaking-down-trace-volumes-further.html>.

⁷ Muzinich, Justin, “Remarks of Deputy Secretary Justin Muzinich at the 2020 U.S. Treasury Market Conference.”, 29 September 2020, <https://home.treasury.gov/news/press-releases/sm1138>.

⁸ See *id.*

⁹ See Liang, Nellie and Pat Parkinson, “Enhancing Liquidity of the U.S. Treasury Market Under Stress.” Hutchins Center Working Paper #72, 16 December 2020, https://www.brookings.edu/wp-content/uploads/2020/12/WP72_Liang-Parkinson.pdf.

¹⁰ Lael Brainard Speech, *supra* n. 5. As far back as December 2018, Federal Reserve Governor Brainard noted “FINRA’s collections are limited only to its members. The Federal Reserve is close to finalizing an agreement with FINRA to act as our agent in expanding the collection of Treasury transactions to key banks that are also active in this market.”

¹¹ See 86 Fed. Reg. 6329 (January 21, 2021), <https://www.federalreserve.gov/boarddocs/press/foiadocs/2021/20210121/foia20210121.pdf>.

believes that requiring depository institutions to report Treasury market transactions into TRACE, coupled with the Proposal, would further improve the reliability of the data for both regulatory and public dissemination purposes. Otherwise, regulators will be relying on incomplete market data as they oversee the Treasury markets and try to analyze market events.

* * * * *

MFA would be pleased to discuss further the Proposal and the issues raised in this letter with FINRA staff. Please do not hesitate to contact me at (202) 730-2600.

Respectfully submitted,

/s/ Jennifer W. Han

Jennifer W. Han

Chief Counsel & Head of Regulatory Affairs

CC: Bob Colby, Chief Legal Officer, FINRA

VIA EMAIL

February 22, 2021

Jennifer Piorko Mitchell
Office of the Corporate Secretary
Financial Industry Regulatory Authority
1735 K Street, NW
Washington, DC 20006-1506
pubcom@finra.org

Re: FINRA Regulatory Notice 20-43 - Request for Comment on Enhancements to TRACE Reporting for U.S. Treasury Securities

Dear Ms. Mitchell:

ICE Bonds Securities Corporation (CRD# 123635)(“**ICE Bonds**”)¹ appreciates the opportunity to respond to FINRA Notice 20-43 (the “**Request**”) issued by the Financial Industry Regulatory Authority (“**FINRA**”) to request comment on enhancements to FINRA’s Trade Reporting and Compliance Engine (“**TRACE**”) reporting for U.S. Treasury Securities.

ICE Bonds supports FINRA’s efforts to (i) enhance the information reported to TRACE regarding transactions in U.S. Treasury securities and (ii) expand the number of parties required to report such data to TRACE. ICE Bonds believes that including non-FINRA members, such as banks, will provide a more comprehensive and substantially complete set of data in U.S. Treasury securities that will further enhance the analysis and monitoring that is currently being performed.

While ICE Bonds is generally supportive of the policy goals and intentions behind the enhancements in the Request, we raise the following issues to your attention for consideration.

Platform Information and Trading Method

ICE Bonds supports FINRA’s proposal to require members to report information regarding the identity of any non-ATS electronic trading platform through which a transaction in a U.S. Treasury security occurs as well as the method of execution (i.e., voice or electronic). ICE Bonds is encouraged that FINRA intends to apply this requirement to not only non-ATS electronic trading platforms that rely on the exchange registration exemption provided by Rule 301(a)(4) of Regulation ATS,² but also to other electronic trading platforms that don’t meet the

¹ICE Bonds is the operator of three (3) alternative trading systems (ICE BondPoint, ICE Credit Trade and ICE TMC) for the trading of fixed income products and a broker-dealer registered with the US Securities and Exchange Commission, pursuant to Section 15 of the Securities Exchange Act of 1934, is a member of FINRA, the Municipal Securities Rulemaking Board and is registered with the National Futures Association as an introducing broker pursuant to the provisions of the Commodity Exchange Act.

² See CFR 17 242.301(a)(4).

definition of an exchange.³ ICE Bonds believes that as the market stands today, much of the volume in U.S. Treasury securities is being traded on electronic trading platforms regulated only as either broker-dealers or banks or on electronic trading platforms that are not regulated in any capacity. This lack of transparency should be concerning to regulators and as such, adopting the proposal as written in the Request should provide regulators with a more substantially complete set of data that will aid them in gaining a better understanding of the U.S. Treasury securities marketplace.

Report ATS Fees Separately

ICE Bonds believes that reporting ATS fees separately may require both FINRA members that are subscribers to an ATS and ATS operators (also FINRA members) to incur unnecessary implementation costs, technology burdens, and complicate existing subscriber billing structures. As FINRA highlights in the Request, ATSs charge fees to subscribers in a number of different ways, and most subscribers will have fee structures that differ between ATSs. As such, the requirement, as written in the Request, may require both the member user and the ATS operator to develop several different types of reports to address varying fee arrangements.

Further, ICE Bonds is concerned that the requirement to separately disclose ATS related fees may lead to the exposure of competitive and confidential information to the market generally. ATS subscribers generally consist of other broker-dealers, banks, investment advisors, and other sophisticated market participants that in turn do not need FINRA to protect their interests through the implementation of a separate field for ATS fees. ATS operators frequently negotiate fee arrangements that are unique to a specific subscriber. Fee arrangements may differ from subscriber to subscriber based on various factors, such as the level of support a subscriber is willing to provide to the ATS, or the number of other services that the subscriber takes from the ATS operator. ICE Bonds is concerned that information relating to individual fee structures may eventually be required to be publicly disclosed without effectively further enhancing FINRA's oversight of U.S. Treasury securities markets.

More specifically, ICE Bonds would like to highlight that from a development standpoint, the implementation will be substantial, and the monetary cost associated with the development and ongoing support of the additional field will not be insignificant. ICE Bonds has estimated that it will need at least eight technology professionals and approximately six to eight weeks to build and implement this proposed enhancement. These costs will be borne directly by all members reporting to TRACE and indirectly by subscribers, as ATS operators will in turn pass its development and maintenance costs on to its own subscribers. ICE Bonds requests that FINRA undertake a more thorough cost benefit analysis prior to implementing any of the enhancements proposed in the Request.

* * * * *

³ See 17 CFR 240.3b-16.

We hope these comments are constructive to FINRA as it considers further enhancements to TRACE reporting in U.S. Treasury securities. In considering any change, we encourage FINRA to consider whether such change directly enhances the transparency into the U.S. Treasury securities markets as well as the associated costs and development burdens related to such implementations.

Sincerely,

A handwritten signature in black ink, appearing to read 'RL', with a long horizontal flourish extending to the right.

Robert Laorno
General Counsel, ICE Bonds Securities Corporation

cc: Peter Borstelmann, President, ICE Bonds Securities Corporation
Patrick Geraghty, Vice President, Market Regulation, FINRA
Chris Stone, Vice President, Transparency Services, FINRA
Racquel Russell, Associate General Counsel, OGC, FINRA



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February 22, 2021

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

Re: Regulatory Notice 20-43: FINRA Requests Comment on Enhancements to TRACE Reporting for U.S. Treasury Securities

Dear Ms. Mitchell:

The FIA Principal Traders Group (“FIA PTG”)¹ appreciates the opportunity to comment on the FINRA Request for Comments on Enhancements to TRACE Reporting for U.S. Treasury Securities (“Treasuries”). The growth of electronic trading in the U.S. Treasury market over the past decade has contributed to the growing presence of principal trading firms (“PTFs”) in the space. As an association of PTFs, FIA PTG members are keen to contribute to general discussions of market structure and especially efforts to increase transparency.

FIA PTG believes that the current transaction reporting timeline requirements for Treasuries should be significantly reduced. In a market where more and more transactions are occurring electronically there is no justification for the lengthy reporting window that exists today. Accordingly, at a minimum, we support the reductions proposed by FINRA, but would generally recommend going a step further and reducing reporting times to no greater than 15 minutes congruent with current reporting requirements for corporate bonds. Additionally, with respect to on-the-run Treasuries, even 15 minutes is too long considering the liquidity profile of that market; here we would suggest a 10-second reporting window to mirror U.S. equity markets. We recommend that FINRA prioritize the implementation of this aspect of the proposal.

¹ FIA PTG is an association of firms, many of whom are broker-dealers, who trade their own capital on exchanges in futures, options and equities markets worldwide. FIA PTG members engage in manual, automated and hybrid methods of trading, and they are active in a wide variety of asset classes, including equities, fixed income, foreign exchange and commodities. FIA PTG member firms serve as a critical source of liquidity, allowing those who use the markets, including individual investors, to manage their risks and invest effectively. The presence of competitive professional traders contributing to price discovery and the provision of liquidity is a hallmark of well-functioning markets. FIA PTG advocates for open access to markets, transparency and data-driven policy.

FIA PTG strongly supports efforts to increase transparency for market participants. FIA PTG believes real-time public reporting should be required for Treasury transactions executed in the secondary market. The current lack of comprehensive post-trade public reporting is in stark contrast to the transparency provided in many other asset classes, such as equities, futures, swaps and corporate bonds, some of which are less liquid and have a lower percentage of electronic trading than the U.S. Treasury market. Reducing the allowable reporting window and requiring Treasury transaction data be reported in a timely manner are necessary first steps in moving towards real-time public reporting.

FIA PTG is not opposed to any of the proposed enhancements to TRACE data. We are particularly supportive of the requirements to identify any non-ATS electronic trading platforms through which a Treasury transaction occurs as well as an indicator as to whether the transaction was centrally or bilaterally cleared. At present, many electronically executed transactions are occurring on non-ATS electronic platforms and it is important to gather data regarding trading volumes on these venues. FIA PTG also agrees with FINRA that the clearing and settlement methods of a transaction are important information for regulators.

In conclusion, FIA PTG urges FINRA to move forward with the enhancements proposed, especially the reduction in the reporting window. Additionally, we continue to advocate for increased transparency into the U.S. Treasury market through public transaction reporting.

If you have any questions or need more information, please contact Joanna Mallers (jmallers@fia.org).

Respectfully,

FIA Principal Traders Group



Joanna Mallers
Secretary

FINANCIAL INFORMATION FORUM

February 19, 2021

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 20-43: FINRA Requests Comment on Enhancements to TRACE Reporting for U.S. Treasury Securities

Dear Ms. Mitchell,

The Financial Information Forum (FIF)¹ appreciates the opportunity to comment on Regulatory Notice 20-43 (the Regulatory Notice) published by the Financial Industry Regulatory Authority (FINRA).² The Regulatory Notice solicits comment on potential enhancements to the information reported to FINRA's Trade Reporting and Compliance Engine (TRACE) facility regarding transactions in U.S. Treasury securities. In this comment letter, we refer to U.S. Treasury securities as "Treasuries". FIF members appreciate the detailed and thoughtful questions from FINRA that are included in the Regulatory Notice.

A. General recommendations

Prior to commenting on the specific proposals in the Regulatory Notice, we discuss the following recommendations from FIF members that relate more generally to the proposed changes in the Regulatory Notice:

- Describe more specifically the objective for each proposal in the Regulatory Notice
- Provide guidance on the potential impact of the concurrent TRACE proposal by the Federal Reserve
- Provide for reporting of certain data through an end-of-day reporting process

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 20-43 (December 23, 2020), available at <https://www.finra.org/sites/default/files/2020-12/Regulatory-Notice-20-43.pdf>.

- Provide greater transparency to industry members on the current criteria for rejections and unmatcheds as well as how the proposals would change these criteria
- Provide additional guidance on the distinction between manual and electronic executions
- Take into account challenges with implementing new fields and values
- Set the implementation timeline based on publication of technical specifications

1. Describe more specifically the objective for each proposal in the Regulatory Notice

FIF members request that FINRA describe more specifically the objective for each proposal in the Regulatory Notice. This will assist FIF members in evaluating and providing comments on these proposals. In particular, if FINRA is seeking additional data to surveil an area of concern, spelling out that concern would assist the industry in providing feedback on how that data could be provided. As an example, in the Regulatory Notice, FINRA is considering whether to require firms to report desk identifiers.³ Understanding FINRA's objective in proposing this requirement would assist industry members in providing meaningful input on how that objective could be achieved.

2. Provide guidance on the potential impact of the concurrent TRACE proposal by the Federal Reserve

FINRA notes in the Regulatory Notice that TRACE reporting currently does not apply to banks. FINRA indicates "that the Board of Governors of the Federal Reserve System (Federal Reserve) has announced that it plans to collect data on secondary market transactions in U.S. Treasury securities from banks and will enter into negotiations with FINRA to potentially act as the Federal Reserve's collection agent for the data."⁴ Subsequent to FINRA's issuance of the Regulatory Notice, the Federal Reserve issued a notice and request for comment on a proposal to implement TRACE reporting for Treasuries and agency securities by certain depository institutions.⁵

FIF members request guidance on whether the Federal Reserve proposal will have any impact on broker-dealers who report Treasury trades to TRACE. In particular, will FINRA assign MPIDs or other identifiers to the depository institutions that become subject to TRACE reporting? Will FINRA conduct validations and generate rejections and unmatcheds based on TRACE reports submitted by broker-dealers not matching with reports submitted by these depository institutions? Further, as discussed in more detail below, some of the proposals in the Regulatory Notice would impact the types of TRACE validations that are performed, and the expansion of TRACE reporting to certain depository institutions as proposed also could impact these validations. FIF members request clarification on the expected implementation timing of the FINRA and Federal Reserve rule proposals in relation to each other and how the Federal Reserve proposal to expand TRACE reporting to certain depository institutions would impact the proposals in the Regulatory Notice.

³ Regulatory Notice 20-43, p. 6.

⁴ Regulatory Notice 20-43, p. 2.

⁵ "Proposed Agency Information Collection Activities; Comment Request", 86 Federal Register 6329 (January 21, 2021).

3. Provide for reporting of certain data through an end-of-day reporting process

TRACE is a real-time reporting system and ongoing connectivity with TRACE is required throughout the trading day to ensure public dissemination of corporate and agency bond trades, which are publicly disseminated.

Other data is not publicly disseminated, including execution data for Treasury trades. FINRA should clarify which categories of data that are not publicly disseminated are important for FINRA for intra-day surveillance. Data that is not important for FINRA for intra-day surveillance should be reported through an end-of-day reporting system rather than a real-time reporting system like TRACE. As an example, in the Regulatory Notice, FINRA is considering whether to require the reporting of certain new data categories, such as new fields reflecting whether an execution is manual or electronic or a trade is being cleared centrally or bilaterally. These fields would be more appropriate for an end-of-day, rather than a real-time, reporting regime.

TRACE is better suited for transaction reporting bound for dissemination. Publishing price, size, and time of executed transactions for many years is an important FINRA accomplishment. FIF recognizes that, at this time, TRACE is the only mechanism allowing regulators to see US Treasuries transactional data. However, based on the questions raised in the notice, FIF encourages FINRA to look at different ways of reporting and to continue to use TRACE for price and time information subject to dissemination. Other types of information described below can be collected through end-of-day reporting to FINRA.

4. Provide greater transparency to industry members on the current criteria for rejections and unmatches as well as how the proposals would change these criteria

The TRACE system rejects reports submitted by reporting parties based on TRACE system validations. The TRACE system similarly generates unmatched trade reports (unmatches) if the reports submitted by the parties to a transaction are inconsistent, as determined by TRACE system validations.

In evaluating the proposed changes to TRACE set forth in the Regulatory Notice, it would be helpful for firms to have a more detailed understanding of the current criteria that result in a rejection or unmatch in TRACE and how each of the new proposals will impact the rejection and unmatch validations applied by FINRA.

Certain proposals in the Regulatory Notice could lead to new types of rejections and unmatches. Because of the significant overhead involved in addressing rejections and unmatches, FIF members support proposals that can reduce the number and type of rejections and unmatches and would be concerned about proposals that could result in new types of rejections and unmatches.

5. Provide additional guidance on the distinction between manual and electronic executions

In the Regulatory Notice, FINRA is considering changes to require that members indicate whether a transaction is executed via voice or electronically. FINRA also requests feedback on the appropriate

timestamp granularity for reporting manual trades.⁶ To assist firms in providing feedback on these proposals and subsequent compliance with any reporting changes that are adopted, FIF members request that FINRA provide additional guidance on what constitutes a manual or electronic execution.

There are various scenarios where an execution could be considered manual or electronic. For example, assume that a trader agrees to a trade with another trader by phone or through an exchange of chat messages. One of the traders (the executing trader) then enters the trade into an order management system, which sends acknowledgment of the trade to the other trader. One way to determine whether the trade is manual or electronic would be to consider the timestamp for the execution: if the timestamp is based on when agreement was reached between the two traders (whether by phone or exchange of chat messages), the execution could be considered manual; conversely, if the timestamp is based on when the executing firm recorded the execution in its system, the execution could be considered electronic. This is one possible approach for distinguishing between manual and electronic executions, and other approaches also could be considered provided that there is clear guidance for industry members.⁷

FIF members also recommend that if firms are required to report the method of execution, this requirement should only apply to the executing firm since the reporting of this field would be determined by the operations of the executing firm, and the contra firm would not necessarily have access to this information.

6. Take into account challenges with implementing new fields and values

Based on the detailed and thoughtful questions from FINRA, it is clear that FINRA understands that many of the proposed changes will require system changes that could involve significant costs for industry members. FIF members appreciate FINRA's requests for feedback relating to these costs. Ongoing dialogue between FINRA and industry members, through this comment process and subsequent discussions, is important to ensure that FINRA's regulatory objectives can be achieved without imposing an undue burden on industry members.

Certain proposals being considered by FINRA will require firms to add new fields and report new values for TRACE reporting. Implementing new fields and values can require changes to trading desk, back-office and reporting systems, including user interface changes to the various systems. New fields and values also can require database changes. Because TRACE is a real-time reporting system, firms will be required to implement changes to real-time trading, back-office, reporting and database systems. Certain of the proposed changes also will require changes in trading workflows and trader behavior. The potential benefits of changes to TRACE should be balanced against these costs. If FINRA intends to introduce new required fields and values to TRACE, it is most efficient to require the introduction of

⁶ Regulatory Notice 20-43, pp. 5 and 10.

⁷ The Order Audit Trail System (OATS) Frequently Asked Questions (FAQs) issued by FINRA provide that "an electronic order is an order captured by a member firm in an internal or external electronic order routing or execution system." See <https://www.finra.org/filing-reporting/market-transparency-reporting/oats/fag/definitions>, FAQ D1.

these new fields and values on a uniform date. In addition, providing for end-of-day submission of certain data will reduce the burden on firms.

7. Set the implementation timeline based on publication of technical specifications

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.

B. Comments on the specific proposals in the Regulatory Notice

1. Execution timestamps

In the Regulatory Notice, FINRA is considering a requirement that firms report transactions “to TRACE in the finest increment of time captured by the firm’s execution system, but at a minimum, in increments of a second.”⁸ In addition, “where a firm executes transactions in U.S. Treasury securities through an external system, FINRA is considering requiring that firms report such transactions to TRACE consistent with the Time of Execution communicated by the execution venue.”⁹

FIF members note that this proposal, if adopted, would require significant changes to certain firm reporting systems to match the granularity of internal and third-party execution systems. In light of these required system changes, FIF members request that FINRA communicate in greater detail the objective for this proposed change.

FIF members further request that FINRA communicate additional detail regarding timestamp validations that the TRACE system currently performs, including when validations can result in rejected and unmatched trade reports, and how the validation process would be impacted by the proposed changes. As one example, consider a scenario where Firm A executes a trade with Firm B where Firm B is the executing party, and both firms agree on the same execution time. However, Firm B reports to TRACE in a format with a lesser precision in the execution time than Firm A (for example, Firm B could report fewer zeroes after the decimal or truncate certain values at the end after the decimal). Will either of these scenarios result in an unmatched?

FINRA also requests comment on whether FINRA should “continue to permit manual trades to effectively be reported in minutes, or should reporting to at least seconds be required?”¹⁰ To assist FIF members in responding to this question, FIF members request that FINRA communicate additional detail regarding timestamp validations that the TRACE system currently performs. FIF members also request

⁸ Regulatory Notice 20-43, p. 3.

⁹ Regulatory Notice 20-43, p. 3.

¹⁰ Regulatory Notice 20-43, p. 10.

additional guidance on what constitutes a manual versus an electronic trade, as discussed in detail in Part A above. Based on this additional information FIF members will be in a better position to comment on this question.

2. Reporting timeframe reduction

In the Regulatory Notice, “FINRA is considering reducing the trade reporting timeframe for U.S. Treasury securities to facilitate more timely availability to regulators of intraday pricing and liquidity information on U.S. Treasury securities.”¹¹ FIF members do not object to the proposal to reduce the reporting timeframe. Some FIF members recommend a general reporting time period of two hours in place of the one-hour reporting period proposed in the Regulatory Notice. Other FIF members recommend a shorter timeframe that is harmonized with requirements in other asset classes (i.e., 15 minutes for corporate bonds).

3. Identifiers for non-ATS trading platforms

In the Regulatory Notice, “FINRA is considering changes to require members to report information regarding the identity of any non-ATS electronic trading platform through which a transaction in a U.S. Treasury security occurs...”¹² Under the proposal, “a non-ATS trading platform would include any electronic system that does not meet the definition of an ATS under SEC Regulation ATS, through which multiple parties facilitate orders, request-for-quotes (RFQs), or negotiate the terms of a trade in a U.S. Treasury security.”¹³ “FINRA would provide to reporters a list of non-ATS trading platform identifiers for use in populating the new field.”¹⁴

FIF members request that FINRA provide additional detail on the objective for this proposal. If this proposal is adopted, FIF members recommend that FINRA assign MPIDs to non-ATS trading platforms. Creating a new identifier type would require additional development work and additional ongoing operational overhead for firms.

4. Trading method

In the Rule Proposal, FINRA “is considering changes to require for all transactions in U.S. Treasury securities (whether or not an electronic component to the transaction exists), that members indicate whether the transaction was executed via voice or electronically.”¹⁵ FIF member firms request FINRA to explain its objective in requiring the reporting of this information.

As discussed in detail in Part A above, FIF member firms are concerned that the distinction between manual and electronic execution is not clear. In many cases, orders and resulting executions involve a combination of voice and electronic chat communications along with electronic transmission of order,

¹¹ Regulatory Notice 20-43, p. 4.

¹² Regulatory Notice 20-43, p. 4.

¹³ Regulatory Notice 20-43, p. 5.

¹⁴ Regulatory Notice 20-43, p. 5.

¹⁵ Regulatory Notice 20-43, p. 5.

acknowledgment and execution messages, such as through FIX. FIF member firms further note that this proposal, if adopted, would require firms to make significant system changes and also require changes to trader behavior to record whether an execution has been agreed by voice or electronically. Accordingly, FIF member firms do not support this proposal.

If FINRA proceeds with this requirement, it is important for FINRA to provide clear guidance as to the distinction between manual and electronic executions, as discussed in detail in Part A above. FIF members further propose that the reference to “voice” be changed to “manual” because trades can be executed manually through electronic chat messages.

5. Desk identifiers

In the Regulatory Notice, “FINRA is considering adding a new trading desk or unit identifier field for U.S. Treasury securities reporting to identify the specific desk or unit within a member firm executing the transaction.”¹⁶

FIF members note that this proposal would require firms to make significant system changes. FIF members request that FINRA provide additional detail regarding the objective for this proposed change since, at present, FIF members expect this change to be costly and time consuming but do not understand the intent.

FIF members are concerned that different firms will have different interpretations of what constitutes a trading desk or unit. An additional complexity is introduced when firms move a trade to a different desk after execution; in other words, a trade is executed by Desk 1 at a firm, and a cancel, reversal or correction is handled by Desk 2 (or by an operations group at the firm). FIF members request guidance on how this would be reported.

The Regulatory Notice provides that firms would be required to notify FINRA of updates to desk identifiers on a next-day basis. FIF members request clarification on whether TRACE will accept an execution report filed with a new desk identifier if TRACE does not receive the identifier until the following day. FIF members also request clarification on whether TRACE will validate whether a desk identifier reported by a firm for an execution matches a desk identifier previously filed by the firm with TRACE.

If firms are required to report desk identifiers for individual trades, FIF member firms propose that firms have the ability to report these identifiers on an end-of-day basis. If desk identifiers are required, FIF members further recommend that FINRA consider using the existing series of fields in the TRACE reporting message that are currently used for reporting the branch sequence number (Tags 802, 523 and 803).¹⁷ This could depend on how FINRA defines desk identifiers.

¹⁶ Regulatory Notice 20-43, p. 6.

¹⁷ See “FIX Specifications for the Trade Reporting and Compliance Engine system (TRACE®), Trade Reporting for Treasury Securities”, p. 27, available at https://www.finra.org/sites/default/files/2019-12/FIX_Specification_Treasuries_v1.5.pdf.

6. Clearing arrangement indicator

In the Regulatory Notice, “FINRA is considering requiring members to append a new indicator that would identify whether a transaction in a U.S. Treasury security will be cleared centrally or bilaterally.”¹⁸ FIF members do not understand why this information is relevant for trade surveillance purposes. If FINRA and other regulators are interested in macro information relating to trade settlement, it is more efficient for regulators to obtain this data from other third-party sources.

Reporting this field will involve a significant technical challenge because execution reporting systems often are disconnected from the settlement process. In certain cases, the settlement process may be handled at a different firm from the one that handles the execution or on subsequent days.

If this field is required, it should be reportable on an end-of-day basis because the settlement method can change after a trade has been executed based on market conditions, counter-party needs, customer requests or other factors. In addition, the settlement method should not be relevant for real-time trade surveillance.

FIF members request clarification on how firms would report this field for trades where they use the Fixed Income Clearing Corporation (FICC) for trade comparison but not for netting.

7. Multi-leg transaction modifiers

In the Regulatory Notice, “FINRA is considering whether additional modifiers to identify specific categories of multi-leg transactions involving a U.S. Treasury security are appropriate, as well as an additional modifier to indicate whether the U.S. Treasury security transaction is priced at or off market.”¹⁹ FINRA is considering proposing modifiers to identify:

- Trades involving a series of nominals
- Breakeven trades
- Trades against an interest rate swap
- Trades hedging other security types
- Any other multi-leg transaction not specified in the above categories.²⁰

The proposed changes to transaction modifiers will require changes to trading workflows, as traders will need to input these values into trading desk systems.

FIF members are concerned about the challenges that firms will face in correctly identifying the type of transaction, as proposed in the Regulatory Notice. In particular, FIF members propose that FINRA amend its proposal to remove references to “hedging” in the reporting requirements. Many firms think about their transactions in terms of modifying the firm’s existing exposure therefore many transactions a firm engages in reduce the firm’s risk (i.e., hedge) along some dimension.

¹⁸ Regulatory Notice 20-43, p. 6.

¹⁹ Regulatory Notice 20-43, p. 7.

²⁰ Regulatory Notice 20-43, pp. 7-8.

As opposed to a focus on hedging, it is preferable to focus on whether trades are part of the same series of transactions. Even here, it is often unclear when trades are part of the same series of transactions. For example, are orders in a basket order by definition considered to be part of the same series of transactions? To be part of the same series of transactions, is it necessary that the orders be submitted at the same time and, if so, what time parameters should be applied? Alternatively, is it necessary that the orders be grouped by the customer (or a firm, in the case of a principal order) through a single group identifier? FIF members believe that further discussions among FINRA and industry members would be required to obtain greater clarity on what guidelines firms should use to determine when orders are considered part of the same series of transactions.

FIF members also have a concern that the reporting of specific types of multi-leg transactions will require firms to reveal proprietary trading strategies.

8. Price at or off the current market

In the Regulatory Notice, “FINRA is considering, for each strategy ... that members further specify whether the U.S. Treasury securities transaction is executed at a price that is at or off the current market.”²¹ FIF members are concerned that it is not possible to have an objective market price for many bond trades, especially less-liquid ones. The problem is compounded by the nature of public reporting in the Treasury market. There are no public reports of Treasury trades and, unlike the equity markets, there are no publicly disseminated exchange books with multiple market makers providing continuous firm two-sided quotes that collectively represent the market. Even assuming a firm is somehow aware of a simultaneous trade in the security, (a) how does the firm know whether this reported trade is “on” or “off” the market? and (b) how far away from the market would the firm's trade need to be to be considered “off”? Would this distance from the market vary based on product? Given these challenges, FIF members recommend that FINRA remove this requirement.

FIF members also request clarification on the distinction between this proposed reporting requirement and the current requirement to report the “SpecialPriceIndicator” field.²²

9. Standardized price reporting

In the Regulatory Notice, “FINRA is considering changes to require further standardization of the measure used to report price” based on the category of Treasury.²³ FIF members support a requirement to report all trades based on the dollar price. Some firms only report based on price and would need to implement system changes to report based on a discount rate or discount margin. Having a standardized price reporting requirement also would likely reduce the number of unmatched based on price.

²¹ Regulatory Notice 20-43, p. 8.

²² See “FIX Specifications for the Trade Reporting and Compliance Engine system (TRACE®), Trade Reporting for Treasury Securities”, p. 20, available at https://www.finra.org/sites/default/files/2019-12/FIX_Specification_Treasuries_v1.5.pdf.

²³ Regulatory Notice 20-43, p. 8.

10. Report ATS fees separately

In the Regulatory Notice, “FINRA is considering requiring that members report per-transaction ATS fees separately from the price when reporting transactions in U.S. Treasury securities to TRACE.”²⁴

FIF members note that in many cases the per-transaction fee for a Treasury trade on an ATS is not known until after the end of the month, at which time a volume discount is applied to the trades that a firm executed during the prior month. FIF members believe that TRACE should be used for reporting the execution price on an ATS and that a separate process, not related to TRACE, should be considered for reporting ATS fees.

FIF appreciates the opportunity to comment on Regulatory Notice 20-43. If you would like clarification on any of the items discussed in this letter or would like to discuss further, please contact me at howard.meyerson@fif.com.

Very truly yours,

/s/ Howard Meyerson

Howard Meyerson
Managing Director, Financial Information Forum

²⁴ Regulatory Notice 20-43, p. 9.

February 22, 2021

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

**Re: FINRA Request for Comment on Enhancements to TRACE Reporting for U.S.
Treasury Securities (Regulatory Notice 20-43)**

Dear Ms. Mitchell:

Dimensional Fund Advisors LP (“Dimensional”)¹ appreciates the opportunity to provide the Financial Industry Regulatory Authority (“FINRA”) with our reviews on Regulatory Notice 20-43.² At Dimensional, we believe that expanding TRACE reporting requirements and increasing public transparency of data is very beneficial to fostering a fair and efficient market for all participants.

We support the proposed enhancements to TRACE reporting requirements relating to U.S. Treasury securities, as we believe enhanced reporting will be particularly useful for regulators and therefore very beneficial to the market in general.

In addition, we strongly encourage FINRA to publicly disseminate the TRACE data that it collects on U.S. Treasury securities as soon as practicable. As we wrote in a letter to FINRA on September 23, 2019,³ we believe that increased price transparency always benefits investors. Since 2002, the price transparency and improved oversight made possible by TRACE has directly contributed to narrower bid-ask spreads and fueled capital markets growth. In our view, publicly disseminating TRACE data on U.S Treasury securities would support and improve these benefits.

Please do not hesitate to contact us if we could be of further assistance. We would welcome the opportunity to present an expanded discussion of our thoughts on these issues.

Sincerely,

/s/ Gerard O'Reilly

Gerard O'Reilly
Co-CEO and Chief Investment Officer

¹ Dimensional Fund Advisors LP is an investment adviser registered with the Securities and Exchange Commission.

² FINRA Regulatory Notice 20-43 (December 23, 2020), available online at: <https://www.finra.org/rules-guidance/notices/19-25>.

³ See Letter to Marcia E. Asquith from Gerard O'Reilly dated September 23, 2019, attached as Appendix A.

Appendix A

**Letter to Marcia E. Asquith, Office of the Corporate Secretary, FINRA, from Gerard O'Reilly,
Co-CEO and Chief Investment Officer, Dimensional Fund Advisors LP, dated
September 23, 2019**

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.

February 22, 2021

Via Electronic Submission

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

Re: Regulatory Notice 20-43; FINRA Requests Comment on Enhancements to TRACE Reporting for U.S. Treasury Securities

Dear Ms. Mitchell,

SIFMA¹ and its members appreciate the opportunity to respond to Regulatory Notice 20-43 and share our recommendations and concerns on FINRA's proposed enhancements to TRACE reporting for US Treasury securities. We recognize the importance of regulators having access to the information they need to conduct systemic risk and market conduct oversight and understand FINRA's goals in exploring how the TRACE platform can be used to support the delivery of additional information on market activity and the behavior of market participants to FINRA and its regulatory partners. As the regulatory community reviews activity in the Treasury securities markets, we understand the importance of finding new ways for regulators to obtain information relating to the activity in these securities.

At the outset, we would like to share our views on high level considerations which we suggest FINRA bear in mind when designing any planned enhancements to TRACE reporting and the schedule and implementation process to support them, before moving into more detailed comments on specific elements of the proposal. There are a number of common considerations which we feel should shape the design and implementation of any potential enhancements to TRACE in the Treasury market space.

First, when considering the technical and operational challenges of making any enhancements for reporting firms, there are substantial differences among TRACE reporters. Different firms may be starting from different levels, depending on existing systems and infrastructure, and we recommend FINRA bear these differences in mind when developing implementation timelines. Similarly, we would like to stress the importance of staggered build times for any enhancements which FINRA moves forward with, discussed further below.

Additionally, some of the data envisioned for collection in this proposal is not readily available; other data is likely available but would require significant tech buildouts given that SIFMA members do not report that information for other asset classes. Similarly, we caution against the direct extension of reporting structures from other markets to Treasury markets (and vice versa). What makes sense for one market is not necessarily achievable for all markets, due to issues such as differences in market structure or

¹ SIFMA is the voice of the U.S. securities industry. We represent the broker-dealers, banks and asset managers whose nearly 1 million employees provide access to the capital markets, raising over \$2.5 trillion for businesses and municipalities in the U.S., serving clients with over \$20 trillion in assets and managing more than \$67 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>.

timelines for trading. We point to a number of these challenges in our responses to specific elements of the proposal below.

Our response to these proposals is also based on the understanding that this information will be used for regulatory purposes only and would not be subject to public dissemination, consistent with past FINRA rule filings allowing for the release of only aggregate information on the Treasury markets collected via TRACE and Department of Treasury statements on the goals and scope of Treasury market information dissemination.^{2 3}

We also encourage FINRA and its regulatory partners to look at the basic nature of the TRACE platform when considering the most effective means to collect additional information on Treasury markets activity. Using TRACE to collect additional data is most effective when any new information requests closely align with the core features of TRACE as a trade reporting platform. The provision of information beyond that traditionally required by TRACE (i.e., CUSIP, price, direction, etc.) will be challenging for firms to comply with. Forcing these non-traditional data elements into the TRACE platform may result in data which is not as effective for regulatory purposes. Looking beyond TRACE to identify other alternatives for collecting some of these data elements may be more efficient for both firms and regulators.

As FINRA contemplates its plans for TRACE enhancements, we strongly urge any enhancements which are adopted to be implemented on an extended, or staggered, basis over the timeframe of a couple of years. As detailed below, with respect to those proposed enhancements that we believe are appropriate, they will require significant operational and technical changes within reporting firms, and in many cases each element of the proposal will require system work which is different and distinct from the work needed to support other elements of the proposal, given that they touch a broad range of firm systems.

The implementation schedule should also reflect that additional time will be required in order to modify trade feeds with counterparty trading venues. These proposed changes include many new data elements across firms' trading, trade capture, and reporting processes. Implementing these changes across a number of counterparty trading venues will take additional time. There is additional complexity because many of these venues are not the direct counterparty of reporting firms.

We also recommend FINRA review these proposals in light of other pending regulatory changes that may impact the availability of information on these markets and products. For example, the proposal by the Federal Reserve Board of Governors to implement Treasury Securities and Agency Debt and Mortgage-Backed Securities Reporting Requirements will increase the number of users and complexity of information provided by the banks which are in scope for its requirements, and FINRA should bear that in mind terms of 1) implementation complexity, 2) what information is available and what their needs will be, and 3) transparency implications of that rule proposal.⁴ Similarly, the Securities and Exchange Commission's (SEC) proposed expansion of Reg ATS in the Treasury securities market may have implications on the structure of ATS markets and the information available on them, which we discuss in greater detail below.

Comments on Specific Elements of the Proposal

Within the broad goals outlined by FINRA in this proposal, we feel there are significant differences between the specific proposals in terms of the ability of SIFMA members to deliver the information

² Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change to Allow FINRA to Publish or Distribute Aggregated Transaction Information and Statistics on U.S. Treasury Securities; Nov. 14, 2019 <https://www.sec.gov/rules/sro/finra/2019/34-87540.pdf>

³ Remarks of Deputy Secretary Justin Muzinich at the 2019 US Treasury Market Structure Conference; September 23, 2019, <https://home.treasury.gov/news/press-releases/sm782>

⁴ <https://www.federalreserve.gov/boarddocs/press/foiadocs/2021/20210121/foia20210121.pdf>

suggested, the technical and operational complexity involved in supporting them, and in some cases the feasibility of using TRACE to collect this information.

At a high level, SIFMA views the specific elements of the proposal in five broad categories: 1) Implementation will be challenging but is achievable with adequate time and appropriate definitions; 2) Recommend FINRA rework existing TRACE modifiers and reporting fields to capture the information; 3) Areas where we recommend FINRA delay any changes until pending regulatory proposals have been resolved; 4) proposals which SIFMA and its members strongly believe are not suited to collection through TRACE and where we recommend FINRA identify other means to collect this information; 5) proposals where the industry's ability to successfully deliver additional information will depend on the details of how such enhancements are structured. The table below (Table A) summarizes our views on each of the proposed enhancements.

We feel that among the proposed enhancements, the clearing arrangement indicator and the separate reporting of ATS fees have serious challenges, and we recommend that FINRA not move forward with them. As discussed below, each of these proposals would be very difficult and in some cases next to impossible for SIFMA members to accurately and consistently report. These challenges would not be resolved with technical enhancements, but reflect the way information is shared among market participants. Additionally, they do not align with the scope and structure of TRACE as a trade reporting platform, and we recommend FINRA and its regulatory partners find alternative means of collecting any information on these issues needed for supervisory activity.

The proposed enhancements to the multi-leg transaction indicators also present major challenges given the structure of these types of trades; instead we recommend FINRA re-purpose existing modifiers to capture any additional information needed. We also recommend FINRA delay any enhancements around the identification of non-alternative trading system (ATS) trading venues until pending SEC rulemaking in this space is finalized.

The industry's ability to execute two other proposed enhancements - the proposed desk identifier and the move to greater granularity in execution time stamps – will depend on the details of how any new requirements are structured. The proposed desk identifier indicator will be very complex to execute in a way that would provide meaningful, comparable information. The proposed requirement for more granular execution timestamps will also present major challenges in reconciling information across venues and firm systems. The ability of the industry to successfully implement new requirements in these areas will vary substantially on how they are defined and scoped. With appropriate scoping, these requirements could at best be complex but ultimately achievable builds; however, if the details of their scope do not reflect the complexity of industry practice and interaction among market participants and systems, it may not be possible to deliver consistent, meaningful information. If FINRA moves forward with changes in these areas, close engagement and dialogue with the industry will be necessary to develop the details of any new requirements prior to implementation.

SIFMA and its members believe that the other enhancements are achievable (at times, in part), given the right implementation timeframes as discussed above, and provided that any changes are supported by appropriate definitions and conditions reflecting industry market practice, the unique features of the US Treasury market, and the constraints on firm systems

Table A: Categorization of SIFMA Responses to Proposed Enhancements

| <i>Proposed Enhancement</i> | <i>Implementation challenging but achievable</i> | <i>Recommend adapt existing modifiers</i> | <i>Delay until other regulatory change is complete</i> | <i>Major challenges, recommend use alternatives instead</i> | <i>Details of proposal will determine ability to implement</i> |
|-----------------------------|--|---|--|---|--|
| | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| More granular execution timestamps | | | | | X |
| Shortened trade reporting timeframe | X | | | | |
| Non-ATS Indicator | | | X | | |
| Desk identifier | | | | | X |
| Platform information and trading method | X | | | | |
| Clearing Arrangement Indicator | | | | X | |
| Multi-leg Transaction Indicator | | X | | | |
| Standardized Price Reporting | X | | | | |
| Separate Reporting of ATS Fees | | | X | X | |

We feel it is valuable to provide specific comments on individual elements of the proposal in greater detail below:

(1) *More granular execution timestamps;*

FINRA's proposal considers revisions to the current execution timestamp requirements for U.S. Treasury securities to require that members report transactions executed electronically in U.S. Treasury securities to TRACE in the finest increment of time captured by the firm's execution system, but at a minimum, in increments of a second, as well as reporting in the most granular increment which is provided by any external execution venue used by the firm in trades.

This change will likely present a range of challenges for many broker dealers, given that systems have been built based on current requirements. Although some firms already provide information at this level of granularity, it is not standard across firms. Execution systems often have various components, many of which are at differing time standards. If FINRA's proposal would require firms to use the most granular time component contained within any element of their larger systems, this would create substantial operational challenges.

There are additional challenges because even though an incremental time stamp is provided by a venue, this does not mean that time stamp is easily replicated within a firm's systems for reporting purposes. Also, it is likely that firms receive time stamps at differing increments across venues (or potentially even products) and it will not be easy or straightforward to create the level of uniformity needed for this modified requirement.

Reporting capabilities also vary across the platforms used by firms for different business lines; not all firms have a single system which provides execution timestamps in a consistent format. These differences across the multiple platforms used by many firms to handle Treasury market trading activity will create substantial work to allow for a new execution timestamp (at the most granular level which might be digested or used within any element of a firm's execution system infrastructure) which would meet the requirements proposed by FINRA. Put another way, simply because one element of a firm's system

receives, contains or stores a granular timestamp, this does not mean that the system as a whole can be adjusted to recognize this time for TRACE reporting purposes. This will be a significant build as firms have to pull together execution data from a number of different sources, which would need to then be formatted in a consistent way to send downstream to reporting engines.

We would also note that while this information is at times available for electronic trading (even if it would require system changes to report at a new level of detail), it is not possible for voice trading activity to be reported at the same level of timestamp granularity as for electronic trades. Members firmly believe that the proposal's recommendation to create different standards for voice and electronic trading will create confusion.

Additionally, the proposal refers to transactions "executed electronically" – which is a nebulous term covering a range of different ways of executing trades. Any rule change would need to provide clear definitions of what would be in scope, and also reflect the fact that within the broad category of "electronic" transactions there may be differences in the level of timestamp granularity that are available, even after technical upgrades, based on the characteristics of those markets.

As the proposed changes would require firms to standardize information across platforms, it would be most effective from a technological perspective to have timestamps for all TRACE reporting consistent across products, not just Treasuries. As a result, FINRA's thinking on the level of timestamp granularity for Treasuries should be informed by the limitations and structural constraints that shape reporting timestamps for other TRACE eligible products.

There is additional complexity for both reporting firms and regulatory users of the data as reporting moves to capture increasingly granular levels of detail. These challenges can be seen in the challenges associated with clock synchronization and harmonizing information from different reporters as seen in equities space for the implementation of the Consolidated Audit Trail (CAT).

In light of these complexities, we would like to stress that changing the granularity of execution timestamps would not be a simple exercise of aligning broader reporting standards with a more granular data point that may be presently available. If FINRA moves forward with enhancements in this area, it would be necessary to work with the industry to understand how their objectives for greater granularity in execution time information can be structured in a way which reflects the complexities of market practice, firm systems, and the interaction among market participants.

(2) A shortened trade reporting timeframe;

The proposal also discusses a potential reduction in the reporting timeframe for trades in US Treasury securities, with the goal of providing regulators with more timely information on intraday pricing and liquidity information. The proposal suggests a move to a 60-minute reporting timeframe for trades carried out during the majority of the regular trading day, with modifications for early morning and late day trades. This would be a substantial change from the current reporting timeframes.

SIFMA and its members feel that some shortening of the reporting timeframe requirement from the current window would be feasible for firm systems, provided that any change includes sufficient time for implementation and testing. However, we recommend that FINRA not move to a 60-minute timeframe as outlined in the proposal. We recommend moving to at most a two-hour timeframe, built around the periods of reporting during the trading day as outlined in the proposal. This could be reviewed in the future based on the industry's experiences providing this data and the end user regulators' experiences in working with more rapidly available data.

There are operational challenges inherent in a more dramatic move from the current timeframe to a 60-minute timeframe. For example, there are inconsistencies in the way firms report today which would need to be modified, as well as the impact of moving more data through systems on an intraday basis. There

are also tradeoffs between shortened time for reporting and an uptick in late reports with cancels and corrects. This tradeoff becomes more acute the shorter the standard reporting time becomes.

Additionally, the reporting timeframe for Treasury trading should reflect the unique operational and market responsibilities of many firms active in this market. For example, primary dealers do have an obligation to focus on defined responsibilities of supporting auctions and open market activity in line with Treasury market best practices; a wider reporting window would give firms more flexibility to meet these time sensitive requirements and provide TRACE reporting. These responsibilities impact not just the process of booking trades, but associated responsibilities for correct reporting, which draws on staff across the middle office. This would create challenges at shorter timeframes such as a 60-minute window, and especially were reporting to eventually move to the 15-minute timeframe seen in corporate fixed income markets.

(3) new indicators to identify non-alternative trading system (ATS) trading venues and method of execution, the trading unit within a firm executing a trade, and the method used to clear and settle a transaction

General Comments on these Indicators

The proposal outlines a number of potential new indicators which would be attached to trades where appropriate, including new indicators to identify non-alternative trading system (ATS) trading venues and method of execution, the trading unit within a firm executing a trade, and the method used to clear and settle a transaction. While we have specific comments related to each of these proposed indicators, at the outset we would like to provide some general comments on the challenges around adding additional indicators to TRACE trade reports.

Each of the proposed new indicators would require significant IT upgrades and build cost for firms to comply with new reporting requirements. In addition, some proposed indicators would be very difficult to provide, as they are not extensions of existing reporting systems but would require bridging with entirely different firm systems. A clear definition of requirement and purpose for any additional indicators will be needed in order for firms to implement them and to for information to be reported in a consistent way across market participants.

These proposed indicators also largely collect information which is not connected with the scope of traditional trade reporting, but which provide surveillance and supervisory information. As a result, FINRA and its regulatory partners who use this information should consider whether TRACE's design as a trade reporting platform makes it fit for purpose in incorporating these elements divergent from its original purpose.

We also encourage FINRA to consider whether there are alternate means to obtain the information provided by these indicators more directly from other sources, such as directly from trading venues or clearing agencies. Although there would likely be challenges in matching up information from other sources to the trade date reported to TRACE, they could provide an efficient solution, depending on how FINRA and other regulators plan to use the information provided.

Specific Comments on Individual Proposed Indicators

3.a) Identify non-alternative trading system (ATS) trading venues

The proposal considers requiring TRACE reporters to append a unique identifier for each non-ATS trading platform used for transactions in U.S. Treasury Securities. We recommend that FINRA postpone any new enhancements related to identifying non-ATS venues at this time. Given that the SEC recently proposed rules to extend Regulations ATS and SCI to Treasuries and other government securities

markets, we believe it would be most effective for FINRA to delay any requirements in this area until this rulemaking moves forward.⁵

If rulemaking moves forward in this area, it could substantially change the landscape of regulation of trading venues for these securities. We recommend that any FINRA enhancements to TRACE in this area be revisited once SEC rulemaking in this area is complete, so they can reflect any changes in market structure going forward. This would allow both the most effective design of any reporting requirements based on any changes in market structure and avoid throwaway work by building mechanisms now that could be made obsolete following new rulemaking in the near future.

Additionally, the proposed SEC rules may potentially provide additional transparency on activities in these markets and venues which FINRA and other regulators are looking to obtain through the current TRACE enhancements proposal. If FINRA delays enhancements in this area until rulemaking is complete, it can then assess what information is available following rulemaking, and what enhancements are further needed to fill any remaining information gaps at that point.

Participants would also need to understand clearly what is classified as a non-ATS venue. Given the various means to execute these transactions, including single dealer platforms, APIs and other communication methods, it is not clear how this category would be delineated, and reporting firms would need clear and detailed guidance reflecting the nuances of the range of venues and transaction models in this market.

3.b) Desk Identifiers

The proposal also notes that FINRA is considering requiring firms to assign and use a unique identifier for each desk or unit at the firm that executes transactions in a U.S. Treasury security. Adding Desk IDs on TRACE for Treasury trade reports would be a significant lift for many firms. It has not been required previously by FINRA and is not an expansion of any existing TRACE reporting functionality, and so would have to be designed and built from scratch for many firms. This is a novel request and arguably beyond the traditional scope of TRACE and its core trade reporting functions. The proposal would also create substantial complexity to develop a system for consistently and accurately identifying desks. We recommend FINRA assess other means to collect information on desk level activity.

Although some firms have desk level reporting identifier capabilities in place as part of reporting requirements associated with the Volcker Rule and Fundamental Review of the Trading Book, many TRACE reporters in the Treasury markets are not in scope for these regulations, and so this would represent a major new technical implementation project for them.

Establishing clear definitions for desks and trading units would be critical for the success of any changes in this area, yet there are major challenges in developing a framework that would reflect the diversity of firm approaches and systems in this area. Delineating these businesses is not always obvious - for example, firms divide their desks in a range of ways and frequently change them (i.e. by tenor or trading strategy, etc.). There will be additional complexity given how Treasuries are used across so many trading types and products. There is additional complexity in that firms use both front and back-end systems to support TRACE reporting, and these will also need to be aligned to clearly and consistently identify desks. For example, firms also work with a range of third-party systems and vendors which have reporting obligations. Each of these systems would need to have the ability to identify one another with a modifier based on desks. It is not clear if these systems could support the addition of these desk modifiers.

This complexity will drive substantial operational and technical lift to consistently and accurately identify a range of desks. It is also not clear whether this requirement would be applied to non-broker dealers who

⁵ SEC Proposes Rules to Extend Regulations ATS and SCI to Treasuries and Other Government Securities Markets, <https://www.sec.gov/rules/proposed/2020/34-90019.pdf>

also have desk structures, such as some ATSS. Close dialogue with reporting firms would be necessary to create clear and unambiguous definitions that reflect industry practices.

It is also not clear whether the desk identifier would be treated as a matching field and require population by counterparties on submissions for transactions with IDBs. If so, requiring the IDBs to mirror the variety of approaches to desk identifiers across their various counterparties would represent a substantial technical lift and add significant operational complexity to the reporting process.

At the outset of our letter, we noted that we are commenting based on our expectation that dissemination of any information reported to TRACE would only be in the aggregate, in line with prior statements by regulators and past FINRA rule changes. If FINRA were in the future to contemplate changes to this dissemination model, SIFMA and its members would have serious concerns around the dissemination of particular elements of information in these proposed enhancements. We feel that desk identifiers contain sensitive market information which would not be suitable for public dissemination, and any information collected with this modifier, if adopted, would need to be excluded from any public dissemination framework. These concerns apply to a number of other aspects of these proposed changes, including such as the enhancements around platform information and trading method discussed below.

We also encourage FINRA to consider further what purpose the information these additional identifiers would serve, and how they and their regulatory partners would use them. The industry may be able to suggest other ways of providing the information needed directly without working through complex enhancements to TRACE in this area. For example, if these modifiers are designed to decrease wash trading inquiries, there may be other ways for market participants to support regulators' inquiries. As in other elements of the proposed enhancements, data collection which is more closely aligned with supervision than on market transparency is best collected through other channels.

Additionally, FINRA should be mindful of the potential impacts of the pending regulatory proposal by the Board of Governors of the Federal Reserve System to implement Treasury securities and Agency debt and mortgage-backed securities reporting requirements for depository institutions, to be collected via TRACE.⁶ The expansion of reporting requirements to these institutions can create additional complexity in the identification and classification of desks via TRACE.

Given these issues, we caution that the ability of the industry to report consistent, meaningful information in this area will depend on the specific details of any new requirements. We encourage FINRA to review how they plan to use this information, assess alternate sources which could provide it, and in light of that work closely with the industry to develop appropriate scoping and definitions for any further reporting requirements which may be necessary.

3.c) Platform information and trading method

The proposal also considers changes to require members to report information regarding the identity of any non-ATS electronic trading platform through which a transaction in a U.S. Treasury security occurs as well as the method of execution (i.e., voice or electronic).

On the question of requiring reporters to distinguish between voice and electronic trades, SIFMA and its members would like stress the complexity of trade types and interactions between firms and trading platforms as part of the trading process, and the resulting challenges in clearing differentiating between trade execution methods. If any new reporting requirements are developed in this area, they will need to be built on the right definitions, and the dialogue with the industry will be needed to make sure they capture the broad range of market practice.

⁶ Board of Governors of the Federal Reserve System Notice and Request for Comment, *supra* Note 4

As a foundation for the any future definition of voice vs. electronic trades, the SEC Fixed Income Market Structure Advisory Committee (FIMSAC) defined fully electronic trades are those for which all material interactions between the parties to the trade, including price discovery, occur through the functionality provided by the platform.⁷ While this captures many of the defining features of electronic trades, it relies on the ATS platform functionality and GUI, that maybe hard to represent as fully electronic. Instead, we encourage FINRA to examine definitions for electronic trading which focus on defining electronic trade as a trade, where communication takes place using standard trading protocol between trading parties (ex. FIX). While a modified version of this definition could be a workable foundation, it would still require extensive review to reflect the ways firms interact with customers, each other and trading venues, and the fact that there are a number of trading models which will be very challenging to clearly and consistently differentiate between voice and electronic.

There are additional challenges in clearly distinguishing between electronic and voice trades, when trading models offer hybrid functionality, which combine aspects of both trading methods. Walking through the lifecycle of a hypothetical trade executed on a venue which offers hybrid functionality highlights the challenges in distinguishing between these trade types.

For example, traders can either enter their orders at a platform with hybrid functionality fully electronically, or they can call or message their voice broker to place the order. The broker takes this “voice” order and then enters it into the platform electronically on behalf of the trader. Once input, the trader can electronically delete or modify it, as they could for any other trade they entered electronically. The trade could have any combination of electronic, voice, and hybrid interactions. For example, a different trader may execute electronically against that voice order, the trader who placed the voice order may then work up the trade himself electronically or speak with the broker to work the trade on their behalf. The broker may be working the trade on the desk with another broker or may be working it electronically with another trader. This hypothetical scenario highlights the serious challenges to consistently identify which aspects of the trade are electronic and which are voice.

On the question of reporting information regarding the identity of any non-ATS electronic trading platform, we would like to stress the importance of allowing for adequate implementation timing, given that trade reporting systems will need to be enhanced to read trade execution (destination) fields. Additionally, the potential ID mapping table suggested by FINRA in the proposal providing a list of non-ATS trading platform identifiers for use in populating the new field would be key for the successful implementation of any new requirements in this area.

3.d) Clearing Arrangement Indicator

As part of the proposal, FINRA is also considering requiring that members specify whether a trade in a Treasury security will be centrally or bilaterally cleared. This is among the most concerning elements of the proposal for SIFMA and its members. Adding this type of modifier would represent a major transformation of the type of information reported to TRACE and would require substantial amounts of technology and systems development to bring in information which currently has no close connections to the type of information used for trade reporting. Additionally, in many cases clearing arrangement information would not be available accurately within the reporting timeframes for TRACE, based on the timeframes for post-trade communication with clients. In light of these challenges, SIFMA and its members strongly recommend that FINRA look for other sources for this information and not implement this modifier.

Incorporating a clearing arrangement indicator in TRACE reporting would require a major build, spanning disparate firm systems which are not currently involved in TRACE reporting. Clearing instructions sit away

⁷ U.S. Securities and Exchange Commission Fixed Income Market Structure Advisory Committee Recommendation Regarding Defining “Electronic Trading” for Regulatory Purposes; October 2020, <https://www.sec.gov/spotlight/fixed-income-advisory-committee/fimsac-recommendation-definition-of-electronic-trading.pdf>

from firms' trade reporting systems and the systems which generate data to report to TRACE. Making information available from one system to another would be a major IT and technology lift.

Even if the technical issues are resolved and these links between clearing and trade reporting systems are completed, the information provided may not be accurate for the timeframes required for TRACE reports. In a client trade involving an Investment Advisor, firms may not know the underlying beneficial owner(s) at the time when the trade is executed and won't know it for hours. Obtaining and confirming this information occurs through a process which is downstream from the booking engine which handles TRACE reporting and relies on different systems, making it challenging to report this information in the timeframes required for TRACE. These differences in timeframes of when information is available will also create issues in the volume of corrections needed. An elevated level of corrections would likely be necessary even in steady state operations for this type of reporting.

If FINRA and its regulatory partners need additional information on the clearing arrangements for the Treasury market, we recommend they look to collect this information through different channels which are more closely suited for purpose. For example, FINRA could work directly with the Fixed Income Clearing Corporation (FICC), which would have the information directly on which trades were cleared against which counterparties. We recommend FINRA also look to the experiences of Dodd-Frank and MiFID reporting requirements which provided additional transparency on a post-trade basis. While these experiences are valuable in considering how to obtain this information, we would also caution about intrinsic differences between listed and derivatives markets when applying solutions from other reporting regimes.

(4) New modifiers to identify additional multi-leg transactions and whether a transaction is priced at the current market;

The proposal also discusses the potential introduction of additional modifiers to further distinguish various strategies and to indicate whether a transaction in a Treasury security is priced at the current market. The proposal suggests that modifiers could be applied for a range of different types of strategies, including trades involving a series of nominals, breakeven trades, trades against an interest rate swap, and trades hedging other security types.

While we support FINRA's efforts to understand the markets better by collecting information on multi-leg transactions, we strongly recommend that FINRA not introduce additional modifiers, but instead use the existing modifiers which are already in place with revised definitions. Adjusting these existing modifiers would provide the information needed much more directly for both FINRA and reporting firms, and avoid the substantial build cost and design complexity that would be incurred if a range of new modifiers were added.

Creating the additional modifiers outlined in the proposal would be a significant IT lift for firms. This work would impact firm systems more broadly than just the systems directly supporting Treasury markets, even if the reporting scope of these modifiers to TRACE was limited to Treasury trades. Further, it may not be possible to fully automate the application of each of these modifiers. In such cases, firms would be forced to rely on manual application, which is of course prone to inconsistent application and/or error.

Although firms are already providing some modifiers to TRACE on multi-leg transactions, it would not be a straightforward process to add additional modifiers. Modifiers are already required for spread trades and off market transactions, and the use of these modifiers and the technology that supports their accurate reporting would be further complicated with additional indicators. There would be substantial complexity in deciphering the trades that use the modifiers already in place versus those which would require the new modifiers, creating very convoluted system for identification. As additional types of multi-leg transactions are added to TRACE reporting, it becomes increasingly challenging to program these systems in a consistent way.

The more systems firms need to connect across asset classes to support this reporting, the more challenging it is. For example, some of the potential modifiers would also require firms to connect TRACE reporting with derivatives systems to match with listed securities systems when trades cover both products. Matching across these multiple systems is not a trivial build, whose complexity would be increased in the many cases where multiple derivatives systems are involved, such as when covering trading in different products or different derivative types.

Firms may also execute the legs of a trade on different entities, such as swap dealers even if they are connected within a larger trading strategy, which will create additional complexity. Firms will be expected to match all these trades against each other, making the build required even greater. Industry reliance on third party service providers is an issue as well when considering the challenges of build complexity and the necessary implementation timeframe. Given that many of these trades span multiple asset classes, the scope of third-party service providers supporting firm activities who would need to be connected in an integrated build is substantial.

In addition to the substantial technical and operational challenges, the effective implementation of any new modifiers requires specific, unambiguous guidance on strategy definitions to report, as well as ample time to program systems to accommodate such reporting. Even with clear definitions, SIFMA and its members caution that there are many cases where it will be challenging to identify transactions consistently in certain market conditions.

Additionally, determining the market price which the identification of the trades requiring modifiers for will not be clear cut, making identifying and accurately and consistently reporting what is on market and what is off market challenging. Unlike equity markets, this is not clear, and the definitions of on and off market will need to be laid out in a way to support reporting. FINRA will need to establish what time frame links these trades.

Ultimately, there are additional challenges in classifying these trades in that any multi-leg transaction could be potentially interpreted as off market, for the simple fact that these trade on spread and the price where the legs are struck is not part of the negotiation. As a result, any price that is not agreed by counterparties to trade for that specific security could be interpreted as not being a market price. The mechanics of trade execution can result in situations where unless one of the securities is currently trading when trading systems looks for a price, it is always grabbing a stale and potentially off market price. In this context, the use of the simple “.s” modifiers is the most accurate representation of the situation an indication that the price was not a negotiated price, but it would be very challenging to add further differentiation beyond that.

In light of these technical and definitional challenges, SIFMA and its members recommend FINRA reassess what additional benefits would these modifiers have on top of the existing spread modifier and off market indicators already required in TRACE. We believe the most effective solution to provide additional market transparency without substantial cost and complexity is for FINRA to review these potential new modifiers in light of the existing modifiers, and look to redesign the use of existing modifiers to capture the additional market information they require.

Revising and improving the existing “.s” “price modifier” already in place within TRACE would potentially obviate the need for additional modifiers. Adapting and improving the definition of what trades are in scope for the “.s” modifier would be substantially more efficient in terms of build for both the industry as reporters and for FINRA as the manager of the TRACE system.

For example, the FINRA rulebook around the “.s” modifier currently defines it only as transactions which “being reported is part of a series of transactions and may not be priced based on the current market,”

and is distinguished from the “.w” modifier.⁸ This definition could be modified to meet FINRA’s reporting objectives

Similarly, there is also an already existing but infrequently used modifier, distinct from the “.s” modifier, to be used when a member knows they are reporting a price that is “outside of the normal market range.”⁹ This modifier could also be revised, in connection with new definitions for the “.s” modifier to capture additional granularity.

(5) Standardized price reporting;

The proposal also discussed potential changes to require firms to standardize the method used for reporting the price of transactions in U.S. Treasury securities. While there would be substantial build cost involved in implementing this change, it is a more straightforward addition than some other proposed changes discussed in the proposed. However, communication on the exact requirements for any new reporting requirements will need to be clear.

Additionally, the level of expense will depend on the level of detail required. We recommend that FINRA aim to keep consistency across products, and not have Treasuries at a higher level of detail than other products.

We also recommend that FINRA continue to allow firms to report trades in either price or yield terms. We suggest that FINRA look to enhance its own systems to extend the functionality to match price and yield to front end information as well.

(6) Separate reporting of per-transaction ATS fees.

The proposal suggests potentially requiring members to exclude per-transaction ATS fees from the price reported to TRACE, and to instead require that members report these fees separately. SIFMA and its members have serious concerns about the ability to the industry to comply with this type of reporting requirement as proposed.

At the outset of our comments, we would like to note that our interpretation of the challenges associated with this proposal vary dramatically depending on whether it applies to all ATS transactions, or only to transactions where ATS fees are calculated on a per-transaction basis which is known at the time of trade. Our comments below are based on the first, more broad interpretation; if it were only the second, more narrow interpretation, then the implementation challenges would be substantially less.

Unlike some other elements of this proposal, where firms will have difficulties in implementing proposed enhancements due to technical or operational complexity, the issues with this proposed change stem from the fact that much of the ATS fees paid by SIFMA members are structured in a way which make them nearly impossible to accurately report via TRACE in the framework proposed, as this ATS fee data does not align with TRACE trade reporting in a way that would provide any meaningful information.

ATS fees are handled in a range of different ways, which vary across ATSs and among their customers as well. These different fee models include flat monthly fees, monthly fees which vary based on trading volume, as well as fees which are charged on a flat trade by trade basis. Many of these models – such

⁸ <https://www.finra.org/rules-guidance/rulebooks/finra-rules/6730>)

⁹ Use of this field is discussed in <https://www.finra.org/filing-reporting/trace/faq> Section 3.1.39, which notes: “Special.” A “Y” in this column indicates that a legitimate reason exists for the bond to be trading at a price outside of the normal market range. The reason must be documented in the field, “Special Memo,” on the trade report. FINRA has provided additional guidance on use of the “Special” column in a number of communications, including Notice to Members 02-76, Question 6, Security in Default section and Questions 9, 10, and 13 of Notice to Members 02-76 (<https://www.finra.org/rules-guidance/notices/02-76>)

as flat or variable monthly fees - cannot be cleanly lined up with trade-by-trade reporting in TRACE. Given the complexity of these models, attempts to provide work-around solutions or adjustments to convert these pricing models would be difficult to implement accurately and consistently across both ATSS and reporting brokers.

We encourage FINRA to review how they would use this information and look for alternate sources to obtain it, such as through broader firm audits or reporting requirements. There will likely be challenges in obtaining trade-by-trade fees even directly from the ATSS themselves.

As discussed above, the pending regulatory changes to the Treasury ATS market under consideration by the SEC may represent an opportunity for FINRA to better understand the pricing dynamics of these markets. We encourage FINRA to delay further enhancements in this area until these regulations are complete, as they may change the dynamics of these markets and also provide new opportunities for collection of data. FINRA revisiting this issue once the potential expansion of Reg ATS in these markets has been resolved may allow for more effective solutions that meet the needs of FINRA and its regulatory partners.

(7) Applicability Outside Treasuries to other TRACE products

The proposal also raises the question of whether any of these proposed enhancements for the Treasury securities markets should also be applied to other TRACE eligible securities. Independent of our comments on individual elements of the proposal, we strongly discourage FINRA from making expansions to Treasury trades apply to other products as part of the same rulemaking and implementation process.

At a technical level, there are already a very broad suite of technology involved already across multiple systems and functions for proposed enhancements to Treasuries alone, making further expansions across other products very challenging.

Additionally, any expansion beyond Treasuries should be based on reviewing the experiences of both FINRA and the reporting firms with the expanded requirements and the information they provide once reporting is established in steady state operations. Any expansion beyond Treasuries should also build on extensive consultation with market participants regarding the applicability of enhancements designed for the Treasury markets to other products, given specificities and unique features of each market with TRACE reporting obligations.

We appreciate the opportunity to respond to the proposal and your consideration as you review any potential enhancements to the functionality of the TRACE system and additional reporting requirements for firms. We would be happy to discuss any of the points raised in our letter in greater detail. Please contact either Rob Toomey (rtoomey@sifma.org) or Charles De Simone (cdesimone@sifma.org) with any questions or to further discuss our views.

Rob Toomey
Managing Director, Rates & Associate General Counsel

Charles De Simone
Vice President, Technology and Operations

EXHIBIT 5

Below is the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

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6700. TRADE REPORTING AND COMPLIANCE ENGINE (TRACE)

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6730. Transaction Reporting

(a) When and How Transactions are Reported

Each member that is a Party to a Transaction in a TRACE-Eligible Security must report the transaction. A member must report a transaction in a TRACE-Eligible Security as soon as practicable, but no later than within 15 minutes of the Time of Execution, except as otherwise specifically provided below. Transactions not reported within the specified timeframe will be designated as “late.” A member must transmit the report to TRACE during TRACE System Hours.

(1) through (3) No Change.

(4) Reporting Requirements — U.S. Treasury Securities

Transactions in U.S. Treasury Securities must be reported as soon as practicable, but no later than the time period specified [as provided] in this paragraph (a)(4).

(A) General Reporting Requirements

Transactions in U.S. Treasury Securities executed on:

- (i) a business day at or after 12:00:00 a.m. Eastern Time through [5:00:00 p.m.] 7:59:59 a.m. Eastern Time must be reported

the same day [during TRACE System Hours] no later than 60 minutes after the TRACE system opens;

(ii) a business day at or after 8:00:00 a.m. Eastern Time through 6:29:59 p.m. Eastern Time (standard TRACE System Hours) must be reported within 60 minutes of the Time of Execution, except as provided in paragraph (a)(4)(A)(iii) of this Rule; [a business day after 5:00:00 p.m. Eastern Time but before the TRACE system closes must be reported no later than the next business day (T + 1) during TRACE System Hours, and, if reported on T + 1, designated "as/of" and include the date of execution; or]

(iii) a business day less than 60 minutes before 6:30:00 p.m. Eastern Time must be reported no later than 60 minutes after the TRACE system opens the next business day (T + 1), and if reported on T + 1, designated "as/of" and include the date of execution; or

(iv) a business day at or after 6:30:00 p.m. Eastern Time through 11:59:59 p.m. Eastern Time, or a Saturday, a Sunday, a federal or religious holiday or other day on which the TRACE system is not open at any time during that day (determined using Eastern Time) must be reported the next business day (T + 1) no later than 60 minutes after the TRACE system opens [during

TRACE System Hours], designated “as/of” and include the date of execution.

(B) No Change.

(5) through (7) No Change.

(b) through (f) No Change.

• • • **Supplementary Material:** -----

.01 through .02 No Change.

.03 Trade Reporting Time Frame

(a) Each member with an obligation to report a transaction in a TRACE-Eligible Security “as soon as practicable” pursuant to paragraph (a) of this Rule[a trade reporting obligation pursuant to paragraph (a) above for a TRACE-Eligible Security that is subject to dissemination] must adopt policies and procedures reasonably designed to comply with this[the] requirement [that transactions in TRACE-Eligible Securities be reported “as soon as practicable”] by implementing systems that commence the trade reporting process at the Time of Execution without delay. Where a member has such reasonably designed policies, procedures and systems in place, the member generally will not be viewed as violating the “as soon as practicable” requirement because of delays in trade reporting that are due to extrinsic factors that are not reasonably predictable and where the member does not purposely intend to delay the reporting of the trade. In no event may a member purposely withhold trade reports, e.g., by programming its systems to delay reporting until the end of the reporting time period.

(b) No Change.

.04 Time of Execution for Transactions in U.S. Treasury Securities. When reporting transactions in U.S. Treasury Securities executed electronically, members must report the T[ime of E]xecution pursuant to paragraph (c)(8) of this Rule to the finest increment of time captured [in the member's] by the execution system (e.g., millisecond, microsecond), but reporting must be [at a minimum,] in an increment[s] of (i) no longer than a second[s] and (ii) no shorter than a microsecond.

.05 No Change.

.06 [Temporary Exception for Aggregate Transaction Reporting of U.S. Treasury Securities Executed in ATS Trading Sessions]

[(a) A member alternative trading system ("ATS") and members engaging in trades on such ATS are permitted to report transactions in U.S. Treasury Securities executed within discrete ATS trading sessions (sometimes referred to as "work-up sessions") in an aggregated manner. Pursuant to this temporary exception, members may submit a transaction report reflecting the aggregate amount of a U.S. Treasury Security purchased (sold) to another party during a single trading session at the average price of such transactions, with the Time of Execution communicated by the ATS to each Party to a Transaction, irrespective of the number of trades in the trading session.]

[(b) A member ATS availing itself of this exception must provide individual transaction information for each trade in a U.S. Treasury Security occurring in a trading session to FINRA upon request.]

[(c) This Supplementary Material .06 shall be in effect until April 12, 2019.]

[.07] ATS Identification of Non-FINRA Member Counterparties for Transactions in U.S. Treasury Securities

(a) through (d) No Change.

.07 Exception for Members with Limited Trading Volume in U.S. Treasury Securities

(a) Supplementary Material .04 shall not apply to a member with limited trading volume in U.S. Treasury Securities, as defined in paragraph (b) of this Supplementary Material .07, provided that, when reporting transactions in U.S. Treasury Securities executed electronically, such member reports the Time of Execution pursuant to paragraph (c)(8) of this Rule to the finest increment of time captured in the member's system (e.g., millisecond, microsecond), but reporting must be in an increment of: (i) no longer than a second and (ii) no shorter than a microsecond.

(b) For purposes of this Supplementary Material .07, a "member with limited trading volume in U.S. Treasury Securities" is a member that executed transactions in U.S. Treasury Securities of \$10 million or less in average daily par value, computed by aggregating buy and sell transactions, during the preceding calendar year.

(c) A member relying on the exception under paragraph (a) of this Supplementary Material .07 shall confirm on an annual basis that it continues to meet the criteria for a "member with limited trading volume in U.S. Treasury Securities" set forth in paragraph (b) of this Supplementary Material .07. If a member no longer meets the criteria set forth in paragraph (b) in a given calendar year, such member shall no longer be eligible for the exception under paragraph (a) beginning 90 days after the end of such calendar year. Thereafter, such member may no longer rely on the exception under paragraph (a), irrespective of whether such member meets the criteria in a subsequent calendar year, except where the member has changed business lines or undergone a

corporate restructuring that significantly impacts its level of activity in U.S. Treasury Securities.

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