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August 1, 2022

Vanessa Countryman  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549-0609

**Via email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov)**

**Re: File No. SR-FINRA-2022-011 – Proposed Rule Change to Expand TRACE Reporting Requirements to Trades in U.S. Dollar-Denominated Foreign Sovereign Debt Securities**

Dear Ms. Countryman:

This letter is being submitted by the Financial Industry Regulatory Authority, Inc. (“FINRA”) in response to comments received by the Securities and Exchange Commission (“SEC” or “Commission”) regarding the above-referenced rule filing. The proposed rule change would amend the Rule 6700 Series (Trade Reporting and Compliance Engine (TRACE)) to require members to report to TRACE transactions in U.S. dollar-denominated foreign sovereign debt securities. Under the proposal, trades in U.S. dollar-denominated foreign sovereign debt securities would be subject to same-day reporting and would not be disseminated publicly.

The Commission published the proposed rule change for public comment in the Federal Register on May 17, 2022.<sup>1</sup> The Commission received four comment letters on the Proposal.<sup>2</sup> Commenters generally supported the Proposal and requested certain

<sup>1</sup> See Securities Exchange Act Release No. 94891 (May 11, 2022), 87 FR 29980 (Notice of Filing of File No. SR-FINRA-2022-011) (“Proposal”).

<sup>2</sup> See Letter from Scott J. Preiss, Snr. Vice President, CUSIP Global Services, to Vanessa Countryman, Secretary, SEC, dated June 6, 2022 (“CGS”); letter from Gerard O’Reilly, Co-CEO and Chief Investment officer, Dimensional Fund Advisors LP, to Vanessa A. Countryman, Secretary, SEC, dated June 6, 2022 (“Dimensional”); letter from Howard Meyerson, Managing Director, Financial Information Forum, to Vanessa Countryman, Secretary, SEC, dated June 7, 2022 (“FIF”); and letter from Christopher B. Killian, Managing Director Securitization and Corporate Credit, Securities Industry and Financial

modifications and additional guidance with respect to the scope and operation of the proposed rule. No commenters opposed the Proposal. Below, FINRA responds to the material aspects of the comments received. If the Commission approves the proposed rule change, FINRA will continue to engage with members to provide interpretive guidance with respect to specific questions that may arise in connection with the Proposal.

#### Operational Concerns and Same Day Reporting

FIF and SIFMA raised operational concerns regarding reporting transactions in U.S. dollar-denominated foreign sovereign debt securities to TRACE where a CUSIP is not assigned or available—particularly in light of the proposed same-day reporting timeframe. In the Proposal, FINRA stated that, where a CUSIP is not available, members may report to TRACE using a FINRA-assigned symbol that corresponds to the security’s other identifier(s) (e.g., the FINRA-assigned symbol would be associated with the ISIN on the Security Master List).<sup>3</sup> While FIF agrees that members should be permitted to report using a FINRA symbol based on an ISIN, FIF also requests that ISIN and FIGI identifiers be allowed for direct reporting, without the separate need to request a FINRA symbol. FIF expressed concern regarding firms’ ability to report to TRACE on a timely basis when the FINRA-assigned symbol is the only available identifier. FIF also recommended that FINRA permit firms to request a symbol for a security where only an ISIN is available through the website process, so as to avoid a manual request process that can result in delays in the assignment of the FINRA symbol.

SIFMA similarly expressed concern regarding reporting to TRACE in accordance with a same day reporting requirement—particularly on the first day of trading for a security that has not yet been set up. SIFMA therefore also recommended that FINRA’s new issue request process be expanded prior to the implementation of the Proposal to accept ISINs in lieu of CUSIP/CINS identifiers. SIFMA requested that FINRA, at a minimum, allow T+1 reporting for securities that require manual set up in TRACE with a FINRA symbol. FIF also noted that the feasibility of the same day reporting requirement is dependent on FINRA accepting website submission of a new issue with only an ISIN, as discussed above, but also expressed concern regarding the feasibility of a same-day reporting requirement for trades occurring prior to 5pm where executed outside the U.S. or involving a foreign counterparty.

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Markets Association, to Vanessa Countryman, Secretary, SEC, dated June 7, 2022 (“SIFMA”).

<sup>3</sup> See Proposal, *supra* note 1.

FINRA appreciates commenters' concerns regarding the ability to report to TRACE where a CUSIP is not available for a security. FINRA notes that CGS, the operator of the CUSIP system, stated that a CUSIP or CINS is available for virtually all U.S. dollar-denominated debt securities for foreign issuers, both private and sovereign. CGS further stated that, in the unlikely and rare event that a CGS identifier is not available at the time the security becomes TRACE-eligible, timely outreach to CGS for assistance is recommended or the use of an ISIN.

In response to commenters' concerns, FINRA notes several measures that are intended to simplify reporting for members and to facilitate timesaving automation. First, as requested by commenters, FINRA will update the new issue form process to permit members to submit the form and receive a FINRA symbol based solely on an ISIN or a FIGI (irrespective of whether a CUSIP and CINS also are available) using the web-based process, which will obviate the need for members to call or email FINRA for assistance with setting up a symbol for a new issue that does not have a CUSIP. In addition, members may utilize machine-to-machine interaction to systematically upload the required new issue information. FINRA believes that these measures, together with members' timely efforts to obtain a CUSIP or ISIN for a security, addresses commenters' operational concerns and concerns regarding the feasibility of reporting on a same day basis. Therefore, FINRA is not recommending any amendments to the Proposal and continues to believe that the same day reporting requirement is appropriate.

CGS also raised the possibility that assigning a FINRA symbol to multiple identifiers could create identifier mapping challenges (or otherwise cause confusion) and stated that, if there is a need to assign a FINRA symbol to a foreign debt security, it should be on a one-to-one basis with the corresponding and fungible CUSIP/CINS or ISIN. FINRA does not agree that associating a FINRA symbol with multiple identifiers creates any unique challenges in the context of the Proposal, as an individual security currently may be assigned CUSIP/CINS, FIGI and ISIN identifiers. FINRA always seeks to avoid duplicative symbol assignments and confirms that FINRA-assigned symbols are intended to correspond, on a one-to-one basis, with a single security and any related identifiers.

#### Reporting Specifications and Implementation Timeframe

FIF and SIFMA requested clarification regarding which TRACE system protocols would apply to the reporting of U.S. dollar-denominated foreign sovereign debt. Specifically, FIF requested confirmation that FINRA intends to leverage the existing TRACE system for corporate and agency debt securities for reporting U.S. dollar-denominated foreign sovereign debt, which would allow firms to leverage existing infrastructure thereby reducing the time and cost for firms to implement the Proposal. SIFMA similarly requested that FINRA clarify which of the existing specifications would

be used or if a new specification would be published. FINRA confirms that U.S. dollar-denominated foreign sovereign debt securities will be reportable to the TRACE facility for corporate and agency debt and will be added as a new security subtype (in addition to corporates, agencies, equity linked notes, and church bonds). FINRA also will create a new report card for member reporting of U.S. dollar-denominated foreign sovereign debt securities.<sup>4</sup>

SIFMA recommended a 15-month implementation timeframe for the Proposal. FIF requested that FINRA ensure that industry members are provided with a sufficient implementation timeframe and asked that the timeframe run from the date that technical specifications and interpretive FAQs are published. If the Commission approves the Proposal, FINRA intends to provide members with an adequate implementation period.

#### Scope of Defined Terms

Commenters raised concerns regarding challenges in identifying U.S. dollar-denominated foreign sovereign debt for purposes of reporting to TRACE.<sup>5</sup> FIF and SIFMA stated that it can be difficult to determine the Schedule B eligibility of an issuer and requested that FINRA provide clarity on how foreign issuers should be classified. FIF also requested guidance regarding how a member should communicate with FINRA if it disagrees with the current classification of a bond. SIFMA also requests further guidance concerning terms used in the Proposal related to the definition of “foreign sovereign debt security.” SIFMA also stated that FINRA should provide guidance as to how previously issued foreign sovereign debt will be set up in TRACE/added to the master file.

FINRA regularly engages with members concerning operational and interpretive questions concerning TRACE reporting, including regarding whether and how a particular security is reportable to TRACE, if unclear. The Proposal seeks to define “foreign sovereign debt security” as “a debt security issued or guaranteed by the government of a foreign country, any political subdivision of a foreign country, or a supranational entity.” As is the case in determining the TRACE-eligibility of any security, FINRA would expect members to analyze the facts and circumstances of a security in light of the relevant definitions and guidance to ensure appropriate reporting to TRACE. FINRA notes that TRACE rules currently require members to distinguish the

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<sup>4</sup> Report cards are a type of compliance tool provided by FINRA to assist members in meeting regulatory obligations. Report cards provide each member with statistics regarding its reporting activities during each month, including statistics regarding how the firm compares to its peers.

<sup>5</sup> See FIF and SIFMA.

U.S. dollar-denominated debt of foreign sovereign issuers from that of foreign private issuers for purposes of TRACE reporting,<sup>6</sup> and, as discussed in the Proposal, FINRA has long (since 2004) provided members with guidance specifically for this purpose.<sup>7</sup> Where members are unable to determine whether a security falls within scope based on the rule and guidance, members should contact FINRA’s Office of General Counsel for assistance.<sup>8</sup>

In addition, FINRA intends to update the TRACE security master list to include the securities that FINRA has identified as U.S. dollar-denominated foreign sovereign debt securities, consistent with FINRA’s usual approach when a new product type becomes reportable to TRACE. FINRA will make the updated security master list available to members in advance of the effective date. However, as FINRA has reminded members in the past with regard to other types of TRACE-eligible securities, members are obligated to have systems or processes in place to determine whether a transaction in a TRACE-eligible security has occurred and is, therefore, reportable, even if it was not included on the TRACE security master list at the time of the transaction.<sup>9</sup> Should members disagree with the current classification of a bond on the master list, members should contact FINRA Market Operations.<sup>10</sup>

#### Public Dissemination

Dimensional, FIF and SIFMA commented regarding the dissemination of transaction information in U.S. dollar-denominated foreign sovereign debt securities. Dimensional strongly supported the Proposal and urged FINRA to consider publishing the data as soon as possible, if the Proposal is approved. Dimensional believes that disseminating the data will be very valuable to market participants (and, that, if the data is disseminated, FINRA should adopt a trade reporting timeframe that is consistent with the reporting timeframe for corporate and agency bonds). FIF supports FINRA’s current proposal to require reporting of foreign sovereign debt securities for regulatory purposes only, and to take a measured approach to potential dissemination in the future, following analysis of the data, as FINRA discussed in the Proposal. However, SIFMA raised

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<sup>6</sup> See Rules 6710(a).

<sup>7</sup> See *Notice to Members* 04-90 (December 2004) (“2004 Notice”).

<sup>8</sup> See FINRA’s website regarding Interpretive Questions at <https://www.finra.org/rules-guidance/interpretive-questions>.

<sup>9</sup> See FINRA Rule 6730(a)(7); and *Trade Reporting Notice*, July 19, 2019 (FINRA Reminds Firms of Their Obligations Regarding TRACE Reporting).

<sup>10</sup> Members may contact FINRA Market Operations at (866) 776-0800.

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several potential concerns regarding any future real-time (or near real-time) dissemination for U.S. dollar-denominated foreign sovereign debt securities and stated that it does not believe the benefits outweigh the risks. Among other things, SIFMA stated that foreign sovereign debt markets are very different from domestic investment grade or high yield markets and that sovereign markets are not homogenous. SIFMA also discussed the potential impact of dissemination on liquidity and information leakage, among other concerns.

As stated in the Proposal, FINRA is not proposing to disseminate transaction information on U.S. dollar-denominated foreign sovereign debt securities at this time and would observe our historical, measured approach to dissemination following appropriate analysis. In addition, any determination to disseminate transaction information for U.S. dollar-denominated foreign sovereign debt securities would be subject to filing with the Commission.

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FINRA believes that the foregoing responds to the material issues raised by the commenters on the rule filing. If you have any questions, please contact me at (202) 728-8363.

Sincerely,

/s/ Racquel Russell

Racquel L. Russell  
Senior Vice President  
Director of Capital Markets Policy