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,

SIFMA[1] 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 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

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

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 with 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 a 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 depositary 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 where 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 changed on a flat trade by trade basis. Many of these models – such

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[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.

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