



Wells Fargo & Company
420 Montgomery Street
San Francisco, California

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Submitted Electronically

Jennifer Piorko Mitchell
Office of the Corporate Secretary
Financial Industry Regulatory Authority
1735 K Street, NW
Washington, DC 20006

Ronald W. Smith
Corporate Secretary
Municipal Securities Rulemaking Board
1300 I Street NW, Suite 1000
Washington, DC 20005

Re: FINRA Regulatory Notice 22-17 and MSRB Notice 2022-07: Requests for Comments on Proposals to Shorten Fixed Income Trade Reporting Timeframes under FINRA Rule 6730 and MSRB Rule G-14

Dear Ms. Mitchell and Mr. Smith:

Wells Fargo & Company¹ appreciates the opportunity to provide comments in response to Financial Industry Regulatory Authority Regulatory Notice 22-17 (the “FINRA Notice”) and Municipal Securities Rulemaking Board Notice 2022-07 (the “MSRB Notice”) (together, “the Notices”). The Notices request comments on proposals to require certain fixed-income trades to be reported “as soon as practicable,” but no later than one minute from the time of trade execution. Wells Fargo supports the goal of enhancing fixed-income market transparency. However, a one-minute trade reporting requirement is a significant acceleration and many critical fixed-income market practices, and operational processes are not currently compatible with a one-minute reporting timeframe. We recommend FINRA and the MSRB take a measured approach that seeks to improve transparency without harming market efficiency or creating significant operational and technology challenges. The purpose of our comment letter is to highlight priority market practices and processes that are currently incompatible with a one-minute reporting regime. A one-minute trade reporting rule will necessitate the consideration of exceptions and alternative regulatory approaches to best support fixed income market transparency and avoid negative outcomes for meaningful segments of the market and investors.

I. Wells Fargo supports enhancing fixed-income-market transparency.

The Notices highlight that most trades (as measured by a percentage of overall trade count) are reported to FINRA’s Trade Reporting and Compliance Engine (TRACE) and MSRB’s Real-time Transaction Reporting System (RTRS) within one minute. The statistics in the Notices highlight that broker-dealers, in general, are not reporting trades at the outer limit of the current 15-minute timeframe. The Notices suggest that all trades can and should

¹ Wells Fargo (NYSE: WFC) is a leading financial services company that has approximately \$1.9 trillion in assets. It proudly serves one in three U.S. households and more than 10% of small businesses in the U.S., and is a leading middle-market banking provider in the U.S. In the communities we serve, the company focuses its social impact on building a sustainable, inclusive future for all by supporting housing affordability, small business growth, financial health, and a low-carbon economy. Wells Fargo submits this letter on behalf of Wells Fargo Bank, N.A. Municipal Finance Group, Wells Fargo Clearing Services, LLC, Wells Fargo Advisors Financial Network, LLC, Wells Fargo Securities, LLC, and Wells Fargo Prime Services, LLC.

be reported within one minute. We encourage FINRA and the MSRB to examine the varied reasons why certain segments of trades are not currently reported within one minute to better understand the existing obstacles to rapid trade reporting.

II. A trade-reporting exception is necessary for block trades executed by a broker-dealer and allocated to client accounts of a registered investment adviser that is part of the same legal entity.

Wells Fargo Advisors² is dually registered with the U.S. Securities and Exchange Commission as a broker-dealer and investment adviser. We recommend that FINRA and the MSRB create an exception to any accelerated trade-reporting requirement to facilitate the timely reporting of trades executed by broker-dealers that are subsequently allocated to sub-accounts of a registered investment adviser (RIA) that is part of the same legal entity. An exception for these transactions will more closely align fixed-income trade reporting rules with FINRA's equity trade reporting rules, which do not require broker-dealers to report sub-account allocations to the tape within 10 seconds.³

As a dual registrant, Wells Fargo Advisors regularly executes and reports block trades and allocates portions of those trades to individual Wells Fargo Advisors RIA client accounts. Under current FINRA rules, broker-dealers are required to report the initial block-size purchase (or sale) no later than 15 minutes.⁴ As outlined by TRACE Frequently Asked Question 3.1.47, the broker-dealer must also report each RIA sub-account allocation within 15 minutes even if the account is at the same legal entity as the broker-dealer.⁵ These allocations frequently result in thousands of additional trade reports. Wells Fargo Advisors uses an automated process to report these allocations and reporting thousands of sub-account allocations is a significant challenge, even under the current 15-minute reporting requirement.

The sub-account allocations are at the same price as the initial block trade. The investment advisory accounts, including related to Separately Managed Account programs, are fee-based accounts. The sub-account allocation trades are reported to TRACE with a "no remuneration" indicator to identify that the broker-dealer received no commission, markup, or markdown related to the transaction. Therefore, the thousands of trade reports provide no additional information to the marketplace beyond what was included in the initial block trade report; and arguably create an inaccurate picture of transaction volume in a security.

Accelerating trade reporting timeframes to one minute would create a significant and costly challenge for timely reporting of these sub-account allocations, with no additional transparency benefit. As FINRA and the MSRB consider this significant acceleration of fixed-income trade reporting, careful consideration should be given to the downstream effects of more rapid reporting. Conforming amendments to rules and guidance to ensure an orderly transition to an accelerated reporting regime will be necessary. Wells Fargo recommends that FINRA and the MSRB create an exception for these sub-account allocations under any accelerated reporting regime.

² Investment products and services are offered through Wells Fargo Clearing Services, LLC. Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC (WFCS), Member SIPC/FINRA, a separate registered broker-dealer and non-bank affiliate of Wells Fargo & Company. WellsTrade® and Intuitive Investor® accounts are offered through WFCS.

³ See FINRA Trade Reporting Frequently Asked Questions, Section 303 "Reporting Agency Transactions," Question 303.12, <https://www.finra.org/filing-reporting/market-transparency-reporting/trade-reporting-faq>. As outlined in the FAQ, these trades are not reported to the tape or for non-tape, regulatory purposes.

⁴ FINRA Rule 6730 requires a member to report a transaction "as soon as practicable, but no later than within 15 minutes of the Time of Execution." MSRB Rule G-14 requires trades to be reported "within 15 minutes."

⁵ See Frequently Asked Questions (FAQ) about the Trade Reporting and Compliance Engine (TRACE), FAQ 3.1.47 (Scenarios 1 and 3) outlines FINRA's guidance on sub-account allocations.

III. An accelerated trade-reporting regime will negatively impact market participants that continue to prefer manually negotiated trades for some portion of their fixed-income trading activity.

The fixed-income markets have evolved and the volumes of trades that are executed electronically have risen. However, many investors still prefer to trade with broker-dealers by voice or electronic message (manually negotiated trades), rather than on an electronic platform. Investors continue to trade this way to benefit from market color, including credit information and information about comparable bonds trading in the market. They may also prefer to negotiate on price directly because they are executing block-size trades or portfolio trades. As a practical matter, trades negotiated and executed manually (by voice or electronic message) take longer to input and report in comparison to trades executed electronically.

A one-minute reporting requirement would present a variety of process oriented, timing, and operational challenges, especially for a trading desk engaging with multiple clients simultaneously. Therefore, the proposed acceleration of reporting could alter the efficiency of the fixed income markets, particularly related to liquidity provision in the institutional marketplace. While a significant acceleration of trade reporting rules may not unduly burden most electronic, retail-size trades, the marketplace will face immediate challenges under a one-minute trade-reporting requirement, especially for block-size institutional trades.

Manually negotiated trades rely on communication, coordination, and multiple procedural steps by sales and trading personnel on trading desks. For example, for each manual trade with an institutional customer, the salesperson or trader confirms the trade details with the customer by voice or electronic message. The salesperson then enters the trade details, which include multiple fields on a trade ticket, double checks the information for accuracy, and submits the trade ticket to a trader. In the next step, the trader double checks the trading ticket, approves it, and submits it for processing and reporting to TRACE or RTRS.

In isolation, it may not be a significant challenge to report a single manually negotiated trade in one minute. A challenge of one-minute reporting will be when a desk is attempting to provide liquidity to multiple counterparties simultaneously, or in multiple securities with the same counterparty. Under a one-minute reporting requirement, broker-dealer sales and trading staff may only have the capacity to focus on a few executions at a time. This will especially impact larger broker-dealers to whom the markets look for liquidity and product availability. In situations where customers want to manually buy or sell multiple bonds at one point in time, broker-dealers may not be able to execute as quickly as they do today if personnel need to prioritize trade reporting at the expense of trade execution for customers. Indeed, because of the timing conflicts that can arise when sequencing trades in multiple securities, accelerating the trade reporting timeframe may have unintended consequences for customer execution quality, especially when prevailing market conditions are changing. Additionally, the tight timing might cause an increased number of late trade reports, which is counterproductive to the goal of enhancing fixed-income market transparency.

As the Notices highlight, most block-size trades are not reported within one minute. MSRB data states that 40.1% of \$1-5 million trades in municipal securities are reported within one minute and 25.3% of municipal securities trades in block sizes of greater than \$5 million are reported within one minute. Most of these block-size trades are reported within five minutes. FINRA's Notice states that 61% of block-size trades in corporate bonds of \$25 million or greater are reported within one minute today.

While block-size trades represent a small portion of the overall trade count, block trades have the most influence on indexes, evaluations, and overall market conditions. As such, any adverse change to the liquidity in the block market liquidity could have additional negative impacts to the overall market that spans beyond those who

typically engage in block trades. We encourage FINRA and the MSRB to further analyze the impact of accelerated reporting on block-size trades and manually negotiated trades.

IV. A significant acceleration of required trade reporting timeframes highlights the importance of exceptions for specific transactions and operational processes.

Wells Fargo recommends that FINRA and the MSRB preserve existing exceptions to trade reporting rules that provide market participants with additional time to report certain transactions. For example, under an accelerated reporting regime, the requirements for transactions executed at the “list or fixed offering price” should not be accelerated, given that the conditions that originally led FINRA and the MSRB to exempt such transactions from 15-minute reporting have not changed. Furthermore, FINRA and the MSRB should engage with the industry to identify challenges with other transactions and operational processes due to a one-minute reporting rule. Wells Fargo recommends FINRA and the MSRB consider the challenges related to the following issues:

1. **Security Master Issues:** There are over 1,500,000 individual fixed-income numerical identifiers issued by the Committee on Uniform Securities Identification Procedures (CUSIP). Broker-dealers may not hold every fixed-income CUSIP number in their security master. This is especially true if the dealer is trading the bonds for the first time, including related to a new issuance. Current FINRA and MSRB trade reporting rules allow for end of day or T+1 reporting of list and fixed offering prices transactions. We recommend that FINRA and the MSRB create an exception for transactions in securities that are not included in the broker-dealer’s security master at the time of trade.
2. **Reverse Inquiry Agency Security Transactions:** A reverse inquiry is a method of issuance that is common for Agency securities in which a dealer engages an issuer and requests a certain quantity and type of debt. Under current FINRA rules these transactions are required to be reported within 15 minutes. A one-minute reporting rule would create challenges for these types of transactions, which are comparable to transactions in a new issuance at a list offering price. We recommend that FINRA create an exception from trade reporting rules for these transactions due to the challenges with executing and reporting these trades within one minute.
3. **Portfolio Trades:** Broker-dealers often provide liquidity for portfolios of bonds, including portfolios with over one hundred individual bonds. Under a one-minute reporting rule, broker-dealers may not be able to execute these types of portfolio trades at one point in time. FINRA and the MSRB should consider an exception to ensure investors continue to benefit from timely executions of portfolio transactions and instances where market participants solicit actionable bids or offers on multiple securities, such as a portfolio trade or a “bid wanted” list.
4. **Impact on Correspondent Firms:** Wells Fargo provides clearing and custody services to correspondent broker-dealers. Many of these firms are small broker-dealers. While these firms do execute fixed income trades electronically on platforms, some firms also execute manually negotiated trades. These trades are executed by the correspondent firm and the trade details are transmitted to Wells Fargo for reporting to TRACE or RTRS. A one-minute reporting rule will be a significant challenge for the correspondent firms that do not execute exclusively electronically.

V. Conclusion.

Wells Fargo supports the goal of enhancing transparency in the fixed-income markets. However, the proposal represents a significant acceleration of trade reporting and will create a series of significant problems related to reporting trades on time. As FINRA and the MSRB continue to pursue enhancements to fixed income transparency, we recommend consideration be given to creating exceptions to any accelerated trade reporting

rule. In addition, we encourage regulators to scrutinize the potential impacts on manually negotiated trades and seek to avoid a negative impact to market efficiency.

We appreciate the opportunity to share our feedback on the Notices. If you would like to discuss these items further or need additional information, please contact John Vahey, Wells Fargo Public Policy, at john.vahey@wellsfargo.com.

Sincerely,

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