FINMA

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August 23, 2016

Mr. Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: **File No. SR-FINRA-2016-024 Proposed Rule Change to Amend FINRA
         Rule 7730 (Trade Reporting and Compliance Engine) – Response to
         Comments**

Dear Mr. Fields:

        This letter is being submitted by Financial Industry Regulatory Authority, Inc.
("FINRA") in response to comments submitted to the U.S. Securities and Exchange
Commission ("Commission") regarding the above-referenced rule filing.[1] The
Commission received two comment letters on the Proposal,[2] one that generally
supports the Proposal with modifications suggested, while the other opposes the
Proposal, as further discussed below.[3]

        FINRA proposes to create a new Academic Corporate Bond TRACE Data
product that solely would be made available to institutions of higher education and
would include transaction-level data on corporate bonds, with masked dealer
identifiers. BDA opposes the establishment of the Academic Corporate Bond TRACE
Data product, asserting that the product will expose dealers and their customers to
unnecessary business risks through reverse engineering, data security risks and the
potential inclusion of the data in a Freedom of Information Act ("FOIA") request.

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[1]   *See* Securities Exchange Act Release No. 78219 (July 1, 2016), 81 FR 44359 (July 7,
        2016) (Notice of Filing of File No. SR-FINRA-2016-024) ("Proposal").

[2]   Prior to filing the proposed rule change with the Commission, FINRA solicited
        comments on a similar, but not identical, version of the proposal in a Regulatory
        Notice. *See* Regulatory Notice 15-26 (July 2015).

[3]   *See* Letters to Brent J. Fields, Secretary, Commission, from Sean Davy, Managing
        Director and Leslie M. Norwood, Managing Director and Associate General Counsel,
        Securities Industry and Financial Markets Association, dated July 27, 2016
        ("SIFMA"); and Mike Nicholas, Chief Executive Officer, Bond Dealers of America,
        dated July 28, 2016 ("BDA").

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SIFMA generally supports the proposal and asks that the minimum age of the data be extended from 36 months to 48 months. Both BDA and SIFMA suggest that, in lieu of masked individual dealer identifiers, FINRA should group comparable dealers and identify within similar groupings. SIFMA states that grouping dealers would enable researchers to track trading patterns and pricing in the secondary market while alleviating reverse engineering concerns. BDA states that grouping dealers would dramatically reduce the risk posed to dealers while supporting academic research.

FINRA continues to believe that the instant proposal strikes the appropriate balance between addressing risks regarding potential reverse engineering with facilitating the ability of academic researchers to study the market for corporate bonds. As noted previously, FINRA proposed an Academic TRACE Data Product in a Regulatory Notice and made significant changes to the proposal following the request for comments, including comments received from SIFMA and BDA. To address concerns regarding reverse engineering, FINRA limited the scope of the proposed data product to corporate bonds, which generally are traded by a greater number of dealers and, therefore, do not present a high likelihood for accurate reverse engineering by academics, even if attempted in contravention of the explicit prohibition in the user agreement on attempting to reverse engineer market participant identities. In addition, FINRA has extended the minimum age for the transactions included in the Academic Corporate Bond TRACE Data product from 24 months, as was proposed in the Regulatory Notice, to 36 months. FINRA continues to believe that the totality of the measures taken by FINRA – e.g., the 36-month delay, limiting the types of securities included in the data product to corporate bonds, the user agreement's prohibition on redistribution of the data, the user agreement's requirement that any data presented in work product be sufficiently aggregated so as to prevent reverse engineering, and the other measures taken by FINRA in the instant Proposal, adequately address the concerns raised by commenters, and commenters have not presented any evidence that demonstrates that these measures are inadequate.

BDA also expressed concern regarding the new Academic Corporate Bond TRACE Data product in the context of a possible data security breach and the chance that an academic institution that subscribes to the data product may become subject to a FOIA request that covers information contained in Academic Corporate Bond TRACE Data. As stated in the Proposal, the user agreement will address security measures. For example, FINRA intends that the user agreement will require the use of commercially reasonable measures to protect the data and that users administer reasonable security procedures where the data is used, accessed, processed, stored or transmitted to ensure that the data remains secure from unauthorized access, including specific requirements regarding physical and logical access, encryption, and network and system security. The user agreement also will include provisions designed to limit the risk of public disclosure of Academic Corporate Bond TRACE Data as a result of federal or state FOIA requests. For example, FINRA intends that the user agreement will require the academic institution to notify FINRA of any FOIA requests prior to

any disclosure, claim any and all applicable exemptions from such requests, provide FINRA the opportunity to seek an injunction, protective order or confidential treatment, and limit any disclosure ultimately required to the minimum legally necessary.

SIFMA also requests that FINRA expand the scope of distribution of the Academic Corporate Bond TRACE Data product to include any not-for-profit that has a separately identifiable research department and that regularly publishes research reports. FINRA appreciates that there may be other types of institutions interested in obtaining the proposed data product. However, in light of the sensitivities around the provision of transaction-level data with masked dealer identifiers in this new data product, FINRA believes it is appropriate to restrict the availability of Academic Corporate Bond TRACE Data to institutions of higher education at this time, and notes that non-academic institutions may subscribe to Historic TRACE Data, which also includes transaction level-information (without masked identifiers).[4]

FINRA continues to believe that the instant proposal strikes an appropriate balance between facilitating the ability of academic researchers to study the impact of various events on the market for corporate bonds, thereby enhancing understanding of the market and the behavior of its participants. If you have any questions, please contact me at 202-728-8363.

Best regards,

Racquel L. Russell

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[4] SIFMA also recommends that FINRA develop robust operational frameworks around the execution and ongoing oversight of user agreements. FINRA has in place processes providing for the oversight of user agreements and this framework also will apply to the new Academic Corporate Bond TRACE Data product. FINRA will monitor the use of the Academic Corporate Bond TRACE Data product and, as stated previously, may consider amending or discontinuing the product, as currently formulated, if future experience shows that anonymized dealer identifier are reverse engineered by academics.