Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2016 - * 024

Amendment No. (req. for Amendments *)

Filing by   Financial Industry Regulatory Authority

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

| Initial * ☑ | Amendment * ☐ | Withdrawal ☐ | Section 19(b)(2) * ☑ | Section 19(b)(3)(A) * ☐ | Section 19(b)(3)(B) * ☐ |

Rule

| Pilot ☐ | Extension of Time Period for Commission Action * ☐ | Date Expires * | | 19b-4(f)(1) 19b-4(f)(4) 19b-4(f)(2) 19b-4(f)(5) 19b-4(f)(3) 19b-4(f)(6) |

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934

| Section 806(e)(1) * ☐ | Section 806(e)(2) * ☐ | Section 3C(b)(2) * ☐ |

Exhibit 2 Sent As Paper Document

Exhibit 3 Sent As Paper Document

Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

Proposed Rule Change to Amend FINRA Rule 7730 (Trade Reporting and Compliance Engine (TRACE))

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 * Racquel   Last Name * Russell

Title *   Associate General Counsel

E-mail *   Racquel.Russell@finra.org

Telephone *   (202) 728-8363   Fax   (202) 728-8264

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,
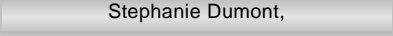
has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title *)

Date   06/28/2016

By   Stephanie M. Dumont

(Name *)

Senior Vice President and Director of Capital Markets Policy

Stephanie Dumont,

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information *

Add   Remove   View

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 *

Add   Remove   View

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 Advance 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, security-based swap submission, or advance notice 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

Add   Remove   View

Exhibit Sent As Paper Document
☐

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.

Exhibit 3 - Form, Report, or Questionnaire

Add   Remove   View

Exhibit Sent As Paper Document
☐

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.

Exhibit 4 - Marked Copies

Add   Remove   View

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

Add   Remove   View

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

Add   Remove   View

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" or "Exchange Act"),[1] 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 7730 to create a new Academic Corporate Bond TRACE Data product that would be available to institutions of higher education.

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**

At its meeting on February 11, 2015, 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 to be published no later than 90 days following Commission approval. The effective date will be no later than 270 days following publication of the Regulatory Notice announcing Commission approval.

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[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

FINRA Rule 7730 sets forth the TRACE data products offered by FINRA. FINRA's data product offerings include both real-time as well as historic data for most TRACE-eligible securities. FINRA is proposing to create a new Academic Corporate Bond TRACE Data product, which would be made available solely to institutions of higher education and would include masked dealer identifiers.

FINRA periodically receives requests from academics for access to TRACE data. FINRA's existing Historic TRACE Data product provides transaction-level data on an 18-month delayed basis for all transactions that have been reported to TRACE in the classes of TRACE-eligible securities that currently are disseminated.[2] While Historic TRACE Data is used by academic researchers today, it does not include any identifying information regarding the dealer reporting each transaction. Thus, where a researcher wishes to track the behavior of an individual dealer or group of dealers — even anonymously — the existing Historic TRACE Data product would not allow for this type of observation. As a result, academics have requested that FINRA make available an enhanced version of Historic TRACE Data that would include dealer identification.

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[2]   FINRA adopted the Historic TRACE Data rule and related fees in 2010. See Securities Exchange Act Release No. 61012 (November 16, 2009), 74 FR 61189 (November 23, 2009) (Order Approving File No. SR-FINRA-2007-006). See also Regulatory Notice 10-14 (March 2010).

In response to these requests from academics, the proposed rule change would create a new Academic Corporate Bond TRACE Data product that would include transaction-level data on corporate bonds (except a transaction that is a List or Fixed Offering Price Transaction[3] or a Takedown Transaction[4]),[5] including Rule 144A transactions in corporate bonds, with masked dealer identifiers. Masked dealer identifiers may be useful to academics in a variety of ways — for example, to enable researchers to track activity by individual dealers or group of dealers and observe their behaviors, and may facilitate the ability of academic researchers to study the impact of various events on measures such as intermediation costs, dealer participation and liquidity. Academic Corporate Bond TRACE Data would be made available only to academics (i.e., requests originating from an institution of higher education).[6]

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[3] Rule 6710(q) generally defines "List or Fixed Offering Price Transaction" as a primary market sale transaction sold on the first day of trading of a security excluding a Securitized Product other than an Asset-Backed Security as defined in Rule 6710(cc): (i) by a sole underwriter, syndicate manager, syndicate member or selling group member at the published or stated list or fixed offering price, or (ii) in the case of a primary market sale transaction effected pursuant to Securities Act Rule 144A, by an initial purchaser, syndicate manager, syndicate member or selling group member at the published or stated fixed offering price.

[4] Rule 6710(r) generally defines "Takedown Transaction" as a primary market sale transaction sold on the first day of trading of a security excluding a Securitized Product other than an Asset-Backed Security: (i) by a sole underwriter or syndicate manager to a syndicate or selling group member at a discount from the published or stated list or fixed offering price, or (ii) in the case of a primary market sale transaction effected pursuant to Securities Act Rule 144A, by an initial purchaser or syndicate manager to a syndicate or selling group member at a discount from the published or stated fixed offering price.

[5] The existing Historic TRACE Data also does not include List or Fixed Offering Price or Takedown Transactions.

[6] In addition, FINRA intends to establish a fee for the Academic Corporate Bond TRACE Data product prior to the effective date of the proposed rule change. The fee will be established pursuant to a separate rule filing.

While FINRA understands that masked dealer identifiers may be very useful to academics in connection with their research activities, we also appreciate that firms may be concerned regarding the potential for reverse engineering. To address this issue, in addition to uniquely masking dealer identities for each academic institution, FINRA proposes to take mitigating steps, including to limit transactions included in the Academic Corporate Bond TRACE Data product to transactions that are at least 36 months old. In addition, FINRA would impose certain requirements on subscribers regarding the terms of use of the data. In the written agreement with subscribers to Academic Corporate Bond TRACE Data, among other things, FINRA will: (1) explicitly require subscribers to agree that they will not attempt to reverse engineer the identity of any market participant; (2) prohibit the redistribution of data in the Academic Corporate Bond TRACE Data product; (3) require users to disclose each intended use of the data (including a description of each study being performed and the names of each individual who will have access to the data for the study); (4) require users to ensure that any data presented in work product be sufficiently aggregated so as to prevent reverse engineering of any dealer or transaction; and (5) require that the data be returned or destroyed if the agreement is terminated.

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 to be published no later than 90 days following Commission approval. The effective date will be no later than 270 days following publication of the Regulatory Notice announcing Commission approval.

(b)   Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of

Section 15A(b)(6) of the Act,[7] 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.

Pursuant to the proposal, FINRA will make available to institutions of higher

education an enhanced historic TRACE data product that will include transaction-level

data on corporate bonds on a 36-month delayed basis with masked identifying

information regarding the dealer reporting each transaction. Academic Corporate Bond

TRACE Data would be made available only to institutions of higher education. FINRA

believes that the additional granularity provided by this new data product will enable

researchers to track the behavior of individual dealers or group of dealers and observe

their behaviors, and may facilitate the ability of academic researchers to study the impact

of various events on measures such as intermediation costs, dealer participation and

liquidity, thereby enhancing understanding of the market for corporate bonds and the

behavior of its participants. Thus, FINRA believes that the proposed rule change is in the

public interest and consistent with the Act.

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.

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7   15 U.S.C. 78o-3(b)(6).

FINRA's existing Historic TRACE Data product provides transaction-level data on an 18-month delayed basis for all transactions that have been reported to TRACE in the classes of TRACE-eligible securities that currently are disseminated. As detailed above, FINRA is proposing to create a new Academic Corporate Bond TRACE Data product, which would be made available solely to institutions of higher education with a 36-month delay and would include masked dealer identifiers associated with individual reported transactions, which is not available in the existing Historic TRACE Data product.

The proposed rule change would expand the benefits of FINRA's TRACE initiatives by providing additional transparency on corporate bond trading for academic research purposes. The analysis that can be conducted using masked dealer identifiers associated with individual reported transactions could incorporate estimates of anonymized dealer positions and hence potentially enhance the ability for researchers to analyze and understand dealer networks and liquidity provision in the corporate bond market.

The proposal to create a new Academic Corporate Bond TRACE Data product would not impose any additional reporting requirements or costs on firms and, as a result, would have no direct impact on firms. However, FINRA considered the potential for indirect costs regarding possible information leakage due to the inclusion of masked dealer identifiers in the data. To investigate whether the dissemination of masked dealer identifiers pose a risk for reverse engineering of the data to reveal the identity of individual firms, FINRA analyzed 15,533,134 corporate bond secondary market trades

(that occurred between February 6, 2012 and February 5, 2016) in 21,164 unique

corporate bonds that were issued between February 6, 2012 and February 7, 2015.[8]

The analysis below attempts to answer the question of whether primary

underwriter information can be reliably linked to the largest seller in a given CUSIP and

potentially unmask the true identity of the firm.[9]

Figure 1a plots the number of distinct corporate bond CUSIPs that are traded

within the first n days after issuance ($n = 0, 1, 2 \ldots 30$) and the percentage of CUSIPs

where the largest seller in the secondary market also is the primary underwriter for that

issue.[10] 11,825 distinct corporate bond CUSIPs are traded in the secondary market on the

day of issuance ($n = 0$) and the largest seller also is the primary underwriter for

approximately 6% of those CUSIPs. Within the first 30 days of trading ($n = 30$), the

number of CUSIPs traded increase to 15,595, and the percentage of CUSIPs where the

largest seller also is the primary underwriter increases to 11%. Effectively, if one

assigned the masked dealer identifier associated with the most sale transactions in the 30-

day window to the primary underwriter, the assignment would be correct for about one in

ten CUSIPs.

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[8]   The analysis is conducted from the perspective of the sell-side in a transaction. Historic TRACE Data and the proposed Academic Corporate Bond TRACE Data product do not include List or Fixed Offering Price Transactions or Takedown Transactions. Therefore, these transactions are excluded from our sample.

[9]   Primary underwriter information is not a data field in TRACE, but is publicly available from various academic and commercial databases at the CUSIP level. "Largest seller" is defined as the Market Participant Identifier ("MPID") with the highest number of transactions over a given number of days.

[10]   For example, for $n = 2$, the measure would determine the number of unique CUSIPs where the underwriter had been the largest seller of the security for the previous three days.

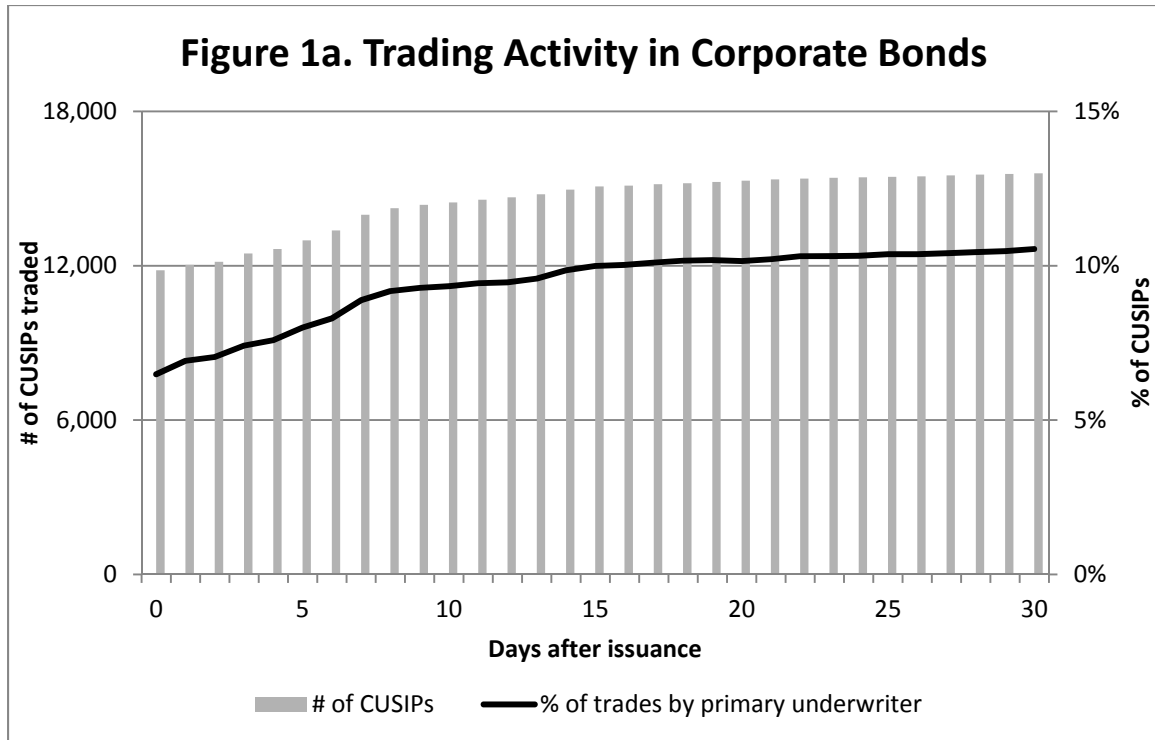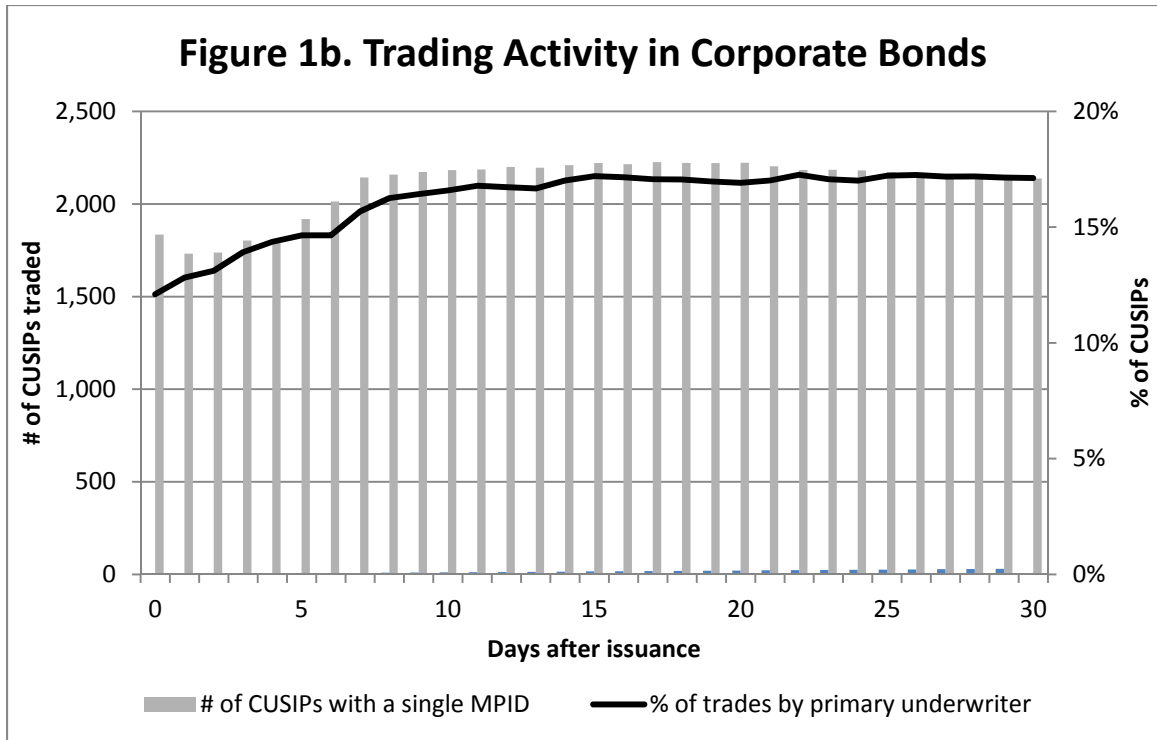## Figure 1a. Trading Activity in Corporate Bonds

Figure 1a suggests that largest seller information in a specific corporate bond can accurately be linked to the primary underwriter, unmasking the identity of the trading firm for approximately 10% of the CUSIPs. Alternatively, a researcher could limit its sample to those CUSIPs that are traded in the secondary market by a single masked dealer identifier within the first n days of trading and assume that this seller is the primary underwriter.

For example, in Figure 1b below, on the day of issuance ($n = 0$), there are 1,835 distinct corporate bonds that are traded by a single MPID, of which 222 (approximately 12%) are sold by the primary underwriter. If one looked at the first 30 days of secondary market trading ($n = 30$), there would be 2,138 distinct CUSIPs in our sample with a single MPID trading the issue and 17% of those MPIDs would be associated with the primary underwriter.

Figure 1b. Trading Activity in Corporate Bonds

Hence, these finding confirm that primary underwriter information alone is not sufficient to discover the true identity of the trading firm where the only other information used in the analysis is the information to be contained in the Academic Corporate Bond TRACE Data product.

However, FINRA acknowledges the potential for reverse engineering of masked dealer identifiers to determine the true identities of individual firms, and has taken a number of measures, as discussed above, to reduce this risk and mitigate any potential impacts.[11] FINRA believes that the potential additional research that may be facilitated

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[11] For example, other publicly-available information exists that may contribute to the potential for successful reverse engineering of dealer identities. One such dataset that can be obtained by academics is sold by the National Association of Insurance Commissioners (NAIC) and contains detailed information about insurance company bond transactions, including the CUSIP of the bond traded, the identities of insurance companies and the dealers between whom each trade is completed, the date of the transaction, the amount traded, and the price of the

by the availability of this new data product will enhance understanding of the market for

TRACE-eligible securities and trending behavior and, therefore, should create a benefit

for market participants.

FINRA may consider expanding TRACE data product offerings in the future to

make transaction-level information with masked dealer identifiers available to academics

for other types of TRACE-eligible securities. However, FINRA believes that starting

with corporate bonds is an appropriate first step because most data requests received from

academics have related to corporate bond data, and because corporate bonds generally are

traded by a greater number of dealers and, therefore, do not present the same likelihood

for accurate reverse engineering by academics.

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 15-

26.[12] FINRA received four comments in response to the Regulatory Notice.[13] A copy of

the Regulatory Notice is attached as Exhibit 2a. A list of the commenters and copies of

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transaction. Please see description of the data in a recent paper by O'Hara et al. (2015) at http://papers.ssrn.com/sol3/Papers.cfm?abstract_id=2680480.

[12]   Regulatory Notice 15-26 (July 2015).

[13]   See Letter from Michael Nicholas, Chief Executive Officer, Bond Dealers of America, to Marcia E. Asquith, Corporate Secretary, FINRA, dated August 24, 2015 ("BDA"), letter from Luis Palacios, Director of Research Services, The Wharton School, to Marcia E. Asquith, Corporate Secretary, FINRA, dated September 10, 2015 ("Wharton"), letter from David L. Cohen, Managing Director & Associate General Counsel, and Sean Davy, Managing Director, Securities Industry and Financial Markets Association, to Marcia E. Asquith, Corporate Secretary, FINRA, dated September 11, 2015 ("SIFMA"), and letter from Carrie Devorah, Founder, The Center for Copyrights Integrity, to Marcia E. Asquith, Corporate Secretary, FINRA, dated September 14, 2015 ("CCI").

the comment letters received in response to the Regulatory Notice are attached as

Exhibits 2b and 2c, respectively.

SIFMA generally supports the proposal but recommends specific modifications to

further guard against information leakage. Specifically, SIFMA's suggestions include

that TRACE data should be delayed a minimum of four years prior to being included in

the academic data product; that transactions be grouped by dealer rather than masked on

an individual basis (excluding information on List or Fixed Offering Price Transactions

and Takedown Transactions);[14] and that the subscription agreement include restrictions

around who at an academic institution is authorized to access the data. BDA also raised

concerns regarding information leakage, and believes that the proposal does not

adequately balance the risk to dealers with the benefits of academic research.

FINRA has considered concerns regarding information leakage due to masked

dealer identifiers and the specific comments received. In response to comments, FINRA

has modified the proposal in two significant ways. First, FINRA has modified the

proposal to extend the data delay period to 36 months rather than the 24-month delay

proposed in Regulatory Notice 15-26. In addition, FINRA is limiting the data to be

included in the scope of the current proposal to transactions in corporate bonds, including

Rule 144A transactions in corporate bonds. In Regulatory Notice 15-26, FINRA

proposed to include all of the data sets currently included in the Historic TRACE Data

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[14]   BDA also notes that the proposal does not state that the masked ID used will be
         changed periodically. To reduce the risk of dealer identification, BDA
         recommends that dealers be grouped by size in the Academic TRACE Data.

product.[15] However, because most data requests from academics relate to corporate

bonds, and because trading may be more concentrated among a smaller number of dealers

for other types of TRACE-eligible securities, FINRA believes it is appropriate to initially

adopt the Academic TRACE Data product to include transaction information on

corporate bonds only, and may reconsider the scope of the product in the future. FINRA

believes that these changes to the academic data product, along with the other measures

included in the proposal, such as the restricted scope of distribution limited to institutions

of higher education; the safeguards included in the data agreement; and the use of masked

identifiers, are sufficient in preventing and mitigating any impact associated with

information leakage.

BDA and SIFMA also suggest using groupings, rather than masked individual

dealer IDs, in the academic data product. FINRA has considered this alternative and

continues to believe that transaction-level information masked at the individual dealer

level is appropriate. FINRA believes that groupings will reduce the utility of the data for

academic researchers and prevent them from accurately undertaking studies that analyze

dealer behavior, or that need to control for dealer-specific factors. However, FINRA

notes that masked identifiers will be made unique per subscriber. FINRA believes that,

while changing the masked identifier per data request as suggested by BDA would

impede research by a single subscriber, assigning unique masked identifiers per

subscriber may both help guard against coordinated efforts at attempting reverse

engineering dealer identities as well as assist FINRA in identifying the source of conduct

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[15]   Historic TRACE Data is transaction-level data and includes the following data
        sets: the Historic Corporate Bond Data Set, the Historic Agency Data Set, the
        Historic Securitized Product Data Set and the Historic Rule 144A Data Set.

that violates the FINRA subscription agreement. FINRA may consider amending or discontinuing the Academic Corporate Bond TRACE Data product, as currently proposed, if future experience shows that anonymized dealer identifier are reverse engineered by academics.

BDA states that prohibiting users from attempting to reverse engineer a dealer's identity will not extend to a reader of any study. However, FINRA notes that the user agreement also will require that any data presented in work product be sufficiently aggregated so as to prevent reverse engineering of any dealer or transaction, and believes that this measure would protect against reverse engineering by readers of published works.

Wharton supports the proposed academic data product and states that the "[a]cademic community's primary interest in having broker IDs is not related to the desire to determine the identities/names of underlying brokers, but most importantly to assess the role of brokers in bond market liquidity and price discovery process."[16] Wharton also states that it has received data with masked broker identities for years from data vendors and is unaware of any cases where this availability has led to successful reverse engineering and public disclosure of broker identities.[17]

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[16]   See Wharton letter.

[17]   Wharton provides in its letter examples of vendor data that has been available
       with masked broker IDs. Specifically, Wharton states that "Thomson-Reuters
       IBES analyst forecast and recommendations database is a good example as it has
       been providing masked IDs for both brokerage houses as well as individual
       analysts since the early 80's. Another example is Ancerno (Abel-Noser) high-
       frequency database of institutional trades which academic researchers have used
       mainly for the reason that it contains a masked institution ID (e.g., Arif, Rephael
       and Lee, 2015; Choi and Sias, 2012)." See Wharton letter.

BDA and SIFMA raised concerns around the inclusion of primary market transaction information (for List or Fixed Offering Price Transactions and Takedown Transactions) in Academic TRACE Data. FINRA confirms that List or Fixed Offering Price Transactions and Takedown Transactions will not be included in the Academic Corporate Bond TRACE Data product.[18]

BDA, CCI[19] and SIFMA raised the issue of information leakage due to potential data security breaches. FINRA notes that the data usage agreement also will address security measures. For example, FINRA intends that the data agreement 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.

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.[20]

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.

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

Not applicable.

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[18] See supra note 5.

[19] CCI raises issues regarding the security of customer information. FINRA notes that the Academic TRACE Data would consist of security-focused transaction information, not customer information. CCI also raises other issues that are not germane to the instant proposal and that, therefore, are not addressed herein.

[20] 15 U.S.C. 78s(b)(2).

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 15-26 (July 2015).

Exhibit 2b. A list of comment letters received in response to Regulatory Notice 15-26 (July 2015).

Exhibit 2c. Copies of the comment letters received in response to Regulatory Notice 15-26 (July 2015).

Exhibit 5. Text of the proposed rule change.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-   ; File No. SR-FINRA-2016-024)

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change to Amend FINRA Rule 7730 (Trade Reporting and Compliance Engine (TRACE))

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   , 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 7730 to create a new Academic Corporate Bond TRACE Data product that would be available to institutions of higher education.

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.

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[1]   15 U.S.C. 78s(b)(1).

[2]   17 CFR 240.19b-4.

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

FINRA Rule 7730 sets forth the TRACE data products offered by FINRA. FINRA's data product offerings include both real-time as well as historic data for most TRACE-eligible securities. FINRA is proposing to create a new Academic Corporate Bond TRACE Data product, which would be made available solely to institutions of higher education and would include masked dealer identifiers.

FINRA periodically receives requests from academics for access to TRACE data. FINRA's existing Historic TRACE Data product provides transaction-level data on an 18-month delayed basis for all transactions that have been reported to TRACE in the classes of TRACE-eligible securities that currently are disseminated.[3] While Historic TRACE Data is used by academic researchers today, it does not include any identifying information regarding the dealer reporting each transaction. Thus, where a researcher wishes to track the behavior of an individual dealer or group of dealers — even

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[3]   FINRA adopted the Historic TRACE Data rule and related fees in 2010. See Securities Exchange Act Release No. 61012 (November 16, 2009), 74 FR 61189 (November 23, 2009) (Order Approving File No. SR-FINRA-2007-006). See also Regulatory Notice 10-14 (March 2010).

anonymously — the existing Historic TRACE Data product would not allow for this type

of observation. As a result, academics have requested that FINRA make available an

enhanced version of Historic TRACE Data that would include dealer identification.

In response to these requests from academics, the proposed rule change would

create a new Academic Corporate Bond TRACE Data product that would include

transaction-level data on corporate bonds (except a transaction that is a List or Fixed

Offering Price Transaction[4] or a Takedown Transaction[5]),[6] including Rule 144A

transactions in corporate bonds, with masked dealer identifiers. Masked dealer identifiers

may be useful to academics in a variety of ways — for example, to enable researchers to

track activity by individual dealers or group of dealers and observe their behaviors, and

may facilitate the ability of academic researchers to study the impact of various events on

measures such as intermediation costs, dealer participation and liquidity. Academic

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[4]   Rule 6710(q) generally defines "List or Fixed Offering Price Transaction" as a
        primary market sale transaction sold on the first day of trading of a security
        excluding a Securitized Product other than an Asset-Backed Security as defined in
        Rule 6710(cc): (i) by a sole underwriter, syndicate manager, syndicate member or
        selling group member at the published or stated list or fixed offering price, or (ii)
        in the case of a primary market sale transaction effected pursuant to Securities Act
        Rule 144A, by an initial purchaser, syndicate manager, syndicate member or
        selling group member at the published or stated fixed offering price.

[5]   Rule 6710(r) generally defines "Takedown Transaction" as a primary market sale
        transaction sold on the first day of trading of a security excluding a Securitized
        Product other than an Asset-Backed Security: (i) by a sole underwriter or
        syndicate manager to a syndicate or selling group member at a discount from the
        published or stated list or fixed offering price, or (ii) in the case of a primary
        market sale transaction effected pursuant to Securities Act Rule 144A, by an
        initial purchaser or syndicate manager to a syndicate or selling group member at a
        discount from the published or stated fixed offering price.

[6]   The existing Historic TRACE Data also does not include List or Fixed Offering
        Price or Takedown Transactions.

Corporate Bond TRACE Data would be made available only to academics (i.e., requests originating from an institution of higher education).[7]

While FINRA understands that masked dealer identifiers may be very useful to academics in connection with their research activities, we also appreciate that firms may be concerned regarding the potential for reverse engineering. To address this issue, in addition to uniquely masking dealer identities for each academic institution, FINRA proposes to take mitigating steps, including to limit transactions included in the Academic Corporate Bond TRACE Data product to transactions that are at least 36 months old. In addition, FINRA would impose certain requirements on subscribers regarding the terms of use of the data. In the written agreement with subscribers to Academic Corporate Bond TRACE Data, among other things, FINRA will: (1) explicitly require subscribers to agree that they will not attempt to reverse engineer the identity of any market participant; (2) prohibit the redistribution of data in the Academic Corporate Bond TRACE Data product; (3) require users to disclose each intended use of the data (including a description of each study being performed and the names of each individual who will have access to the data for the study); (4) require users to ensure that any data presented in work product be sufficiently aggregated so as to prevent reverse engineering of any dealer or transaction; and (5) require that the data be returned or destroyed if the agreement is terminated.

If the Commission approves the proposed rule change, FINRA will announce the effective date of the proposed rule change in a Regulatory Notice to be published no later

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[7] In addition, FINRA intends to establish a fee for the Academic Corporate Bond TRACE Data product prior to the effective date of the proposed rule change. The fee will be established pursuant to a separate rule filing.

than 90 days following Commission approval. The effective date will be no later than

270 days following publication of the <u>Regulatory Notice</u> announcing Commission

approval.

2.   Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of

Section 15A(b)(6) of the Act,[8] 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.

Pursuant to the proposal, FINRA will make available to institutions of higher

education an enhanced historic TRACE data product that will include transaction-level

data on corporate bonds on a 36-month delayed basis with masked identifying

information regarding the dealer reporting each transaction. Academic Corporate Bond

TRACE Data would be made available only to institutions of higher education. FINRA

believes that the additional granularity provided by this new data product will enable

researchers to track the behavior of individual dealers or group of dealers and observe

their behaviors, and may facilitate the ability of academic researchers to study the impact

of various events on measures such as intermediation costs, dealer participation and

liquidity, thereby enhancing understanding of the market for corporate bonds and the

behavior of its participants. Thus, FINRA believes that the proposed rule change is in the

public interest and consistent with the Act.

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[8]   15 U.S.C. 78<u>o</u>-3(b)(6).

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.

FINRA's existing Historic TRACE Data product provides transaction-level data on an 18-month delayed basis for all transactions that have been reported to TRACE in the classes of TRACE-eligible securities that currently are disseminated. As detailed above, FINRA is proposing to create a new Academic Corporate Bond TRACE Data product, which would be made available solely to institutions of higher education with a 36-month delay and would include masked dealer identifiers associated with individual reported transactions, which is not available in the existing Historic TRACE Data product.

The proposed rule change would expand the benefits of FINRA's TRACE initiatives by providing additional transparency on corporate bond trading for academic research purposes. The analysis that can be conducted using masked dealer identifiers associated with individual reported transactions could incorporate estimates of anonymized dealer positions and hence potentially enhance the ability for researchers to analyze and understand dealer networks and liquidity provision in the corporate bond market.

The proposal to create a new Academic Corporate Bond TRACE Data product would not impose any additional reporting requirements or costs on firms and, as a result, would have no direct impact on firms. However, FINRA considered the potential for indirect costs regarding possible information leakage due to the inclusion of masked

dealer identifiers in the data. To investigate whether the dissemination of masked dealer

identifiers pose a risk for reverse engineering of the data to reveal the identity of

individual firms, FINRA analyzed 15,533,134 corporate bond secondary market trades

(that occurred between February 6, 2012 and February 5, 2016) in 21,164 unique

corporate bonds that were issued between February 6, 2012 and February 7, 2015.[9]

The analysis below attempts to answer the question of whether primary

underwriter information can be reliably linked to the largest seller in a given CUSIP and

potentially unmask the true identity of the firm.[10]

Figure 1a plots the number of distinct corporate bond CUSIPs that are traded

within the first n days after issuance ($n = 0, 1, 2 \ldots 30$) and the percentage of CUSIPs

where the largest seller in the secondary market also is the primary underwriter for that

issue.[11] 11,825 distinct corporate bond CUSIPs are traded in the secondary market on the

day of issuance ($n = 0$) and the largest seller also is the primary underwriter for

approximately 6% of those CUSIPs. Within the first 30 days of trading ($n = 30$), the

number of CUSIPs traded increase to 15,595, and the percentage of CUSIPs where the

largest seller also is the primary underwriter increases to 11%. Effectively, if one

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[9]   The analysis is conducted from the perspective of the sell-side in a transaction.
       Historic TRACE Data and the proposed Academic Corporate Bond TRACE Data
       product do not include List or Fixed Offering Price Transactions or Takedown
       Transactions. Therefore, these transactions are excluded from our sample.

[10]   Primary underwriter information is not a data field in TRACE, but is publicly
       available from various academic and commercial databases at the CUSIP level.
       "Largest seller" is defined as the Market Participant Identifier ("MPID") with the
       highest number of transactions over a given number of days.

[11]   For example, for $n = 2$, the measure would determine the number of unique
       CUSIPs where the underwriter had been the largest seller of the security for the
       previous three days.

assigned the masked dealer identifier associated with the most sale transactions in the 30-day window to the primary underwriter, the assignment would be correct for about one in ten CUSIPs.

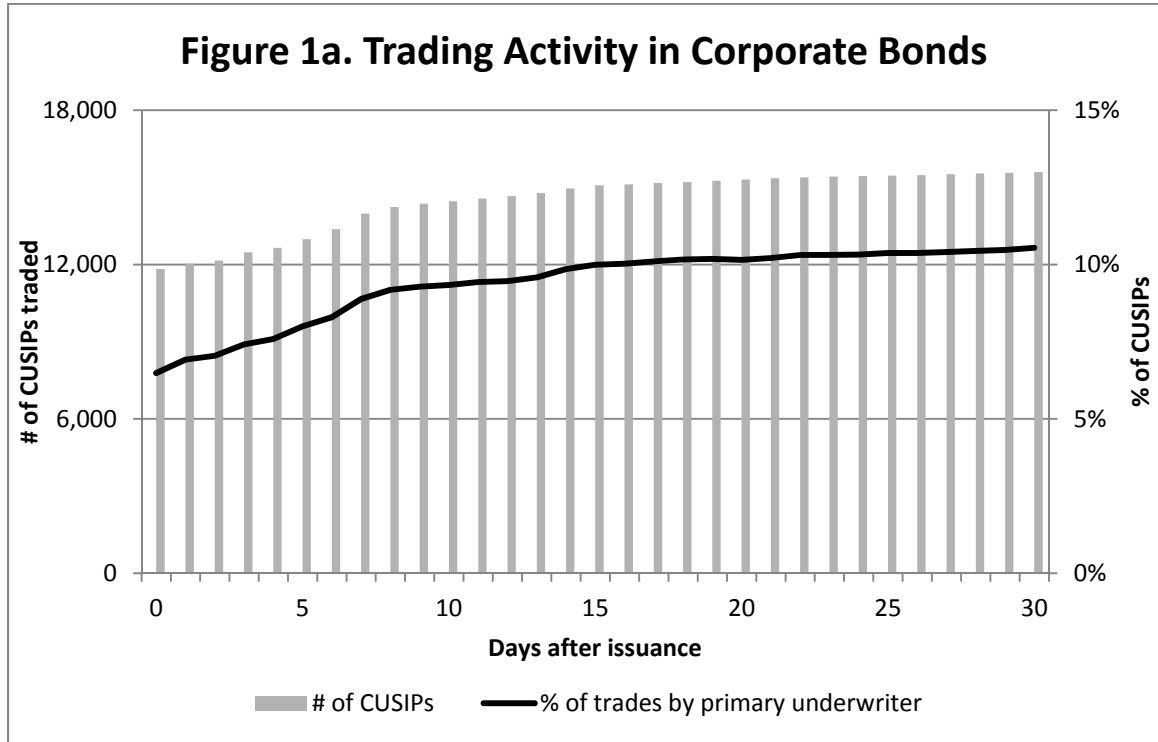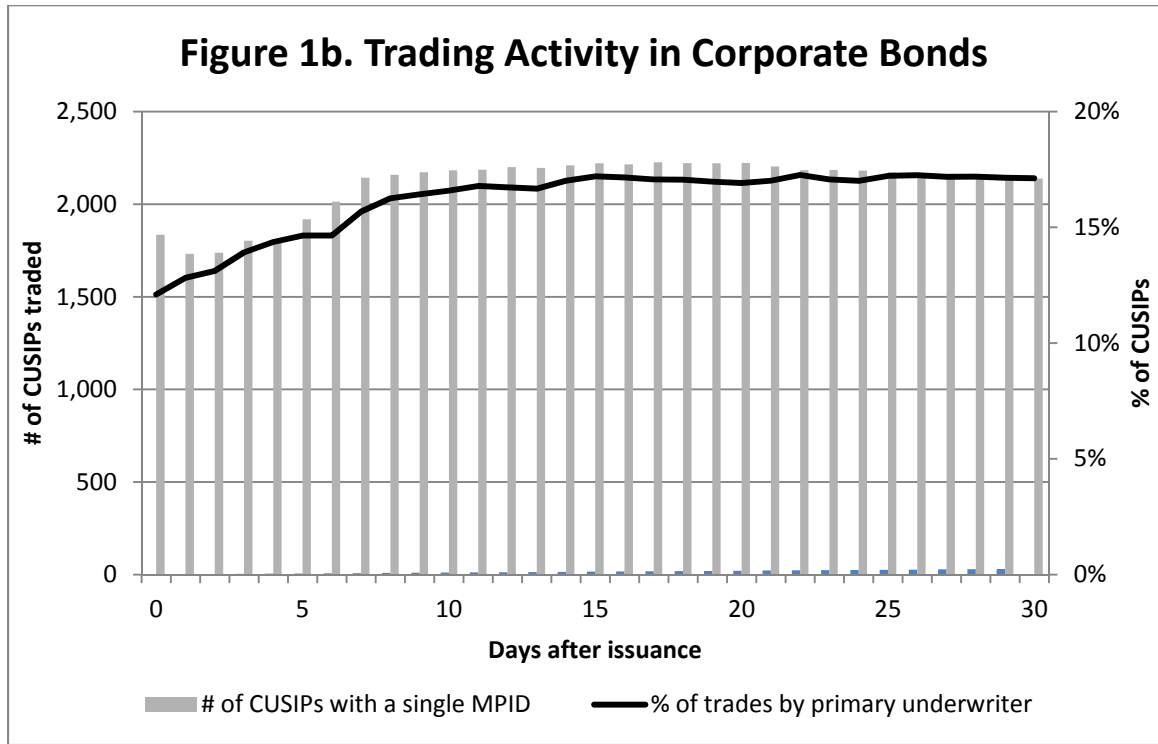**Figure 1a. Trading Activity in Corporate Bonds**

Figure 1a suggests that largest seller information in a specific corporate bond can accurately be linked to the primary underwriter, unmasking the identity of the trading firm for approximately 10% of the CUSIPs. Alternatively, a researcher could limit its sample to those CUSIPs that are traded in the secondary market by a single masked dealer identifier within the first *n* days of trading and assume that this seller is the primary underwriter.

For example, in Figure 1b below, on the day of issuance ($n = 0$), there are 1,835 distinct corporate bonds that are traded by a single MPID, of which 222 (approximately 12%) are sold by the primary underwriter. If one looked at the first 30 days of secondary market trading ($n = 30$), there would be 2,138 distinct CUSIPs in our sample with a

single MPID trading the issue and 17% of those MPIDs would be associated with the

primary underwriter.

Figure 1b. Trading Activity in Corporate Bonds

Legend: # of CUSIPs with a single MPID; % of trades by primary underwriter

Hence, these finding confirm that primary underwriter information alone is not

sufficient to discover the true identity of the trading firm where the only other

information used in the analysis is the information to be contained in the Academic

Corporate Bond TRACE Data product.

However, FINRA acknowledges the potential for reverse engineering of masked

dealer identifiers to determine the true identities of individual firms, and has taken a

number of measures, as discussed above, to reduce this risk and mitigate any potential

impacts.[12] FINRA believes that the potential additional research that may be facilitated

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[12]   For example, other publicly-available information exists that may contribute to
       the potential for successful reverse engineering of dealer identities. One such
       dataset that can be obtained by academics is sold by the National Association of
       Insurance Commissioners (NAIC) and contains detailed information about

by the availability of this new data product will enhance understanding of the market for

TRACE-eligible securities and trending behavior and, therefore, should create a benefit

for market participants.

FINRA may consider expanding TRACE data product offerings in the future to

make transaction-level information with masked dealer identifiers available to academics

for other types of TRACE-eligible securities. However, FINRA believes that starting

with corporate bonds is an appropriate first step because most data requests received from

academics have related to corporate bond data, and because corporate bonds generally are

traded by a greater number of dealers and, therefore, do not present the same likelihood

for accurate reverse engineering by academics.

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

The proposed rule change was published for comment in <u>Regulatory Notice</u> 15-

26.[13] FINRA received four comments in response to the <u>Regulatory Notice</u>.[14] A copy of

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insurance company bond transactions, including the CUSIP of the bond traded, the identities of insurance companies and the dealers between whom each trade is completed, the date of the transaction, the amount traded, and the price of the transaction. Please see description of the data in a recent paper by O'Hara et al. (2015) at http://papers.ssrn.com/sol3/Papers.cfm?abstract_id=2680480.

[13]   <u>Regulatory Notice</u> 15-26 (July 2015).

[14]   <u>See</u> Letter from Michael Nicholas, Chief Executive Officer, Bond Dealers of America, to Marcia E. Asquith, Corporate Secretary, FINRA, dated August 24, 2015 ("BDA"), letter from Luis Palacios, Director of Research Services, The Wharton School, to Marcia E. Asquith, Corporate Secretary, FINRA, dated September 10, 2015 ("Wharton"), letter from David L. Cohen, Managing Director & Associate General Counsel, and Sean Davy, Managing Director, Securities Industry and Financial Markets Association, to Marcia E. Asquith, Corporate Secretary, FINRA, dated September 11, 2015 ("SIFMA"), and letter from Carrie Devorah, Founder, The Center for Copyrights Integrity, to Marcia E. Asquith, Corporate Secretary, FINRA, dated September 14, 2015 ("CCI").

the Regulatory Notice is attached as Exhibit 2a. A list of the commenters and copies of

the comment letters received in response to the Regulatory Notice are attached as

Exhibits 2b and 2c, respectively.

SIFMA generally supports the proposal but recommends specific modifications to

further guard against information leakage. Specifically, SIFMA's suggestions include

that TRACE data should be delayed a minimum of four years prior to being included in

the academic data product; that transactions be grouped by dealer rather than masked on

an individual basis (excluding information on List or Fixed Offering Price Transactions

and Takedown Transactions);[15] and that the subscription agreement include restrictions

around who at an academic institution is authorized to access the data. BDA also raised

concerns regarding information leakage, and believes that the proposal does not

adequately balance the risk to dealers with the benefits of academic research.

FINRA has considered concerns regarding information leakage due to masked

dealer identifiers and the specific comments received. In response to comments, FINRA

has modified the proposal in two significant ways. First, FINRA has modified the

proposal to extend the data delay period to 36 months rather than the 24-month delay

proposed in Regulatory Notice 15-26. In addition, FINRA is limiting the data to be

included in the scope of the current proposal to transactions in corporate bonds, including

Rule 144A transactions in corporate bonds. In Regulatory Notice 15-26, FINRA

proposed to include all of the data sets currently included in the Historic TRACE Data

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[15]   BDA also notes that the proposal does not state that the masked ID used will be
        changed periodically. To reduce the risk of dealer identification, BDA
        recommends that dealers be grouped by size in the Academic TRACE Data.

product.[16] However, because most data requests from academics relate to corporate

bonds, and because trading may be more concentrated among a smaller number of dealers

for other types of TRACE-eligible securities, FINRA believes it is appropriate to initially

adopt the Academic TRACE Data product to include transaction information on

corporate bonds only, and may reconsider the scope of the product in the future. FINRA

believes that these changes to the academic data product, along with the other measures

included in the proposal, such as the restricted scope of distribution limited to institutions

of higher education; the safeguards included in the data agreement; and the use of masked

identifiers, are sufficient in preventing and mitigating any impact associated with

information leakage.

BDA and SIFMA also suggest using groupings, rather than masked individual

dealer IDs, in the academic data product. FINRA has considered this alternative and

continues to believe that transaction-level information masked at the individual dealer

level is appropriate. FINRA believes that groupings will reduce the utility of the data for

academic researchers and prevent them from accurately undertaking studies that analyze

dealer behavior, or that need to control for dealer-specific factors. However, FINRA

notes that masked identifiers will be made unique per subscriber. FINRA believes that,

while changing the masked identifier per data request as suggested by BDA would

impede research by a single subscriber, assigning unique masked identifiers per

subscriber may both help guard against coordinated efforts at attempting reverse

engineering dealer identities as well as assist FINRA in identifying the source of conduct

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[16]   Historic TRACE Data is transaction-level data and includes the following data
        sets: the Historic Corporate Bond Data Set, the Historic Agency Data Set, the
        Historic Securitized Product Data Set and the Historic Rule 144A Data Set.

that violates the FINRA subscription agreement. FINRA may consider amending or discontinuing the Academic Corporate Bond TRACE Data product, as currently proposed, if future experience shows that anonymized dealer identifier are reverse engineered by academics.

BDA states that prohibiting users from attempting to reverse engineer a dealer's identity will not extend to a reader of any study. However, FINRA notes that the user agreement also will require that any data presented in work product be sufficiently aggregated so as to prevent reverse engineering of any dealer or transaction, and believes that this measure would protect against reverse engineering by readers of published works.

Wharton supports the proposed academic data product and states that the "[a]cademic community's primary interest in having broker IDs is not related to the desire to determine the identities/names of underlying brokers, but most importantly to assess the role of brokers in bond market liquidity and price discovery process."[17] Wharton also states that it has received data with masked broker identities for years from data vendors and is unaware of any cases where this availability has led to successful reverse engineering and public disclosure of broker identities.[18]

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[17]   See Wharton letter.

[18]   Wharton provides in its letter examples of vendor data that has been available with masked broker IDs. Specifically, Wharton states that "Thomson-Reuters IBES analyst forecast and recommendations database is a good example as it has been providing masked IDs for both brokerage houses as well as individual analysts since the early 80's. Another example is Ancerno (Abel-Noser) high-frequency database of institutional trades which academic researchers have used mainly for the reason that it contains a masked institution ID (e.g., Arif, Rephael and Lee, 2015; Choi and Sias, 2012)." See Wharton letter.

BDA and SIFMA raised concerns around the inclusion of primary market transaction information (for List or Fixed Offering Price Transactions and Takedown Transactions) in Academic TRACE Data. FINRA confirms that List or Fixed Offering Price Transactions and Takedown Transactions will not be included in the Academic Corporate Bond TRACE Data product.[19]

BDA, CCI[20] and SIFMA raised the issue of information leakage due to potential data security breaches. FINRA notes that the data usage agreement also will address security measures. For example, FINRA intends that the data agreement 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.

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.

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[19] See supra note 6.

[20] CCI raises issues regarding the security of customer information. FINRA notes that the Academic TRACE Data would consist of security-focused transaction information, not customer information. CCI also raises other issues that are not germane to the instant proposal and that, therefore, are not addressed herein.

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-2016-024 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Robert W. Errett, Deputy Secretary,

  Securities and Exchange Commission, 100 F Street, NE, Washington, DC

  20549-1090.

All submissions should refer to File Number SR-FINRA-2016-024. 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; the

Commission does not edit personal identifying information from submissions. You

should submit only information that you wish to make available publicly. All

submissions should refer to File Number SR-FINRA-2016-024 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.[21]

<div align="right">
Robert W. Errett
Deputy Secretary
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[21] 17 CFR 200.30-3(a)(12).

Regulatory Notice

15-26

Trade Reporting and Compliance Engine (TRACE)

FINRA Requests Comment on a New Academic TRACE Data Product

Comment Period Expires: September 14, 2015

Executive Summary

FINRA is soliciting comment on a proposal to create a new Academic TRACE Data product that would be available to institutions of higher education. FINRA and the Municipal Securities Rulemaking Board (MSRB) have been engaged in ongoing dialogue to support a coordinated approach to potential rulemaking in this area. The MSRB also is publishing a notice soliciting comment on a similar proposal that would establish a historical data product of post-trade municipal securities transaction data collected though the MSRB's Real-time Reporting System (RTRS) for institutions of higher education.[1]

The proposed rule text is attached as Appendix A. Selected key terms from the User Agreement for the proposed new Academic TRACE Data product is attached as Appendix B.

Questions regarding this *Notice* should be directed to:

▶   Ola Persson, Vice President, Transparency Services, at (212) 858-4796; or

▶   Racquel Russell, Associate General Counsel, Office of General Counsel, at (202) 728-8363.

Action Requested

FINRA encourages all interested parties to comment on the proposal. Comments must be received by September 14, 2015.

July 2015

Notice Type
▶ Request for Comment

Suggested Routing
▶ Fixed Income
▶ Research
▶ Trading

Key Topics
▶ Fees
▶ Historic TRACE Data
▶ TRACE Transaction Data

Referenced Rules and Notices
▶ FINRA Rule 7730
▶ Regulatory Notice 10-14
▶ Regulatory Notice 15-24
▶ Securities Act Rule 144A

Financial Industry Regulatory Authority

Member firms and other interested parties can submit their comments using the following methods:

► Emailing comments to *pubcom@finra.org*; or

► Mailing comments in hard copy to:

   Marcia E. Asquith
   Office of the Corporate Secretary
   FINRA
   1735 K Street, NW
   Washington, DC 20006-1506

To help FINRA process and review comments more efficiently, persons should use only one method to comment on the proposal.[2]

Before becoming effective, the proposed rule change must be filed with the Securities and Exchange Commission (SEC) pursuant to Section 19(b) of the Securities and Exchange Act.[3]

Important Notes: The only comments that FINRA will consider are those submitted pursuant to the methods described above. All comments received in response to this *Notice* will be made available to the public on the FINRA website. In general, FINRA will post comments as they are received.

Background and Discussion

FINRA Rule 7730 sets forth the TRACE data products offered by FINRA. FINRA's data offerings include both real-time as well as aged historical data for most TRACE-eligible securities.[4] FINRA is soliciting comment on proposed changes to create a new Academic TRACE Data product, which would be made available solely to institutions of higher education and would include masked dealer identities.

Academic TRACE Data

FINRA periodically receives requests from academics for enhanced historical TRACE data. FINRA's existing Historic TRACE Data product provides transaction-level data on an 18-month delayed basis for all transactions that have been reported to TRACE in the classes of TRACE-eligible securities that currently are disseminated.[5] While Historic TRACE Data is used by academic researchers today, it does not include any identifying information regarding the dealer reporting each transaction. Thus, where a researcher wishes to track the behavior of an individual dealer—even anonymously—the existing Historic TRACE Data product would not allow for this type of observation. As a result, academics have requested that FINRA make available an enhanced version of Historic TRACE Data that would include dealer identification.

In response to these requests from academics, FINRA is proposing to create a new Academic TRACE Data product that would include masked market participant identifiers (MPIDs). As noted previously, masked MPID information may be useful to academics in a variety of ways—for example, to enable researchers to track activity by individual dealers or group of dealers and observe their behaviors in studying the impact of various events on measures such as intermediation costs, dealer participation and liquidity. Academic TRACE Data would be made available only to academics (*i.e.,* requests originating from an institution of higher education) for a fee of $500 per data set per calendar year (with a one-time initial set-up fee of $500), and would include the same security classes as included in Historic TRACE Data.[6]

While FINRA understands that masked dealer identifications may be very useful to academics in connection with their research activities, we also appreciate that firms may be concerned regarding the potential for reverse engineering of dealer identities (even though masked). To address this issue, in addition to masking dealer MPIDs, FINRA proposes to take further measures to allay such concerns, including to: (1) explicitly require subscribers to agree that they will not attempt to reverse engineer the identity of any market participant; (2) prohibit the redistribution of data in the Academic TRACE Data product; (3) require users to disclose each intended use of the data (including a description of each study being performed and the names of each individual who will have access to the data for the study); and (4) require that the data be returned or destroyed if the agreement is terminated. Select key terms intended to be included in the User Agreement to safeguard the data are attached in Appendix B. In addition, the transactions included in the Academic TRACE Data product will be aged no less than 24 months.

Economic Impact Analysis

Need for the Rule

As discussed above, FINRA has received requests from academics for access to historical TRACE data that provides sufficient information to allow them to track the behaviors of individual dealers, even on an anonymous basis.

Regulatory Objective

The proposed new Academic TRACE Data product with masked MPIDs is expected to enable academics to conduct research on a variety of topics related to dealer activities, which could enhance understanding of the fixed-income market and its participants.

Economic Impacts

The proposal will not have any direct operational impact on firms, as it does not require firms to provide FINRA with any additional data. The purchase of TRACE data products will continue to be optional.

The proposed Academic TRACE Data product with masked MPIDs may promote academic research on dealer behaviors; it also may raise concerns regarding the potential for reverse engineering of dealer identities. FINRA will explore this issue further using available data and information obtained through the comment process.

Request for Comment

FINRA requests comment on all aspects of the proposal. FINRA requests that commenters provide empirical data or other factual support for their comments wherever possible. FINRA specifically requests comment concerning the following issues.

▶ What public and investor protection benefits might arise from the addition of masked MPIDs to TRACE data available to academics?

▶ FINRA proposes that the Academic TRACE Data product be issued on a 24-month delayed basis. Is this delay an appropriate period of time to allay concerns regarding potential reverse engineering of dealer identities? If not, what other delay period would be appropriate to address these concerns, while still providing data that is timely enough to be useful for market research purposes?

▶ Would a shorter delay period, such as 12 months, be appropriate to enhance the timeliness of the data for research purposes while still minimizing the risk and potential impact of reverse engineering of dealer identities?

▶ Are there alternative ways that dealers may be identified in the Academic TRACE Data? Are there groupings of dealers based on dealer characteristics (*e.g.*, size of firm) that could be used to identify the type of dealer that executed each transaction? Are there behavioral groupings that may be used (*e.g.*, average daily trading volume across TRACE-eligible security asset classes)? How would this approach be preferable to a masked MPID approach in retaining the usefulness of the data to academics while presenting fewer concerns regarding reverse engineering of dealer identifiers?

▶ FINRA intends to limit the availability of Academic TRACE Data to academics currently associated with an institution of higher education in connection with their research activities. Is this an appropriate limitation? If not, please provide alternatives and explain how the alternatives would address concerns regarding reverse engineering of dealer identities. For example, should a data product containing masked MPIDs be made available more broadly to researchers, even if not part of an institution of higher education (e.*g.*, industry groups, non-profit organizations or research-oriented for-profit companies)? Would a broader subscriber base increase the likelihood that dealers or other market participants may obtain the data for competitive reasons?

▶ Are the key terms of the User Agreement in Appendix B sufficient in striking the appropriate balance between protecting member dealer transaction confidentiality interests and facilitating academic research? Should FINRA include any additional restrictions on the use of the data? Are any of the key terms in the User Agreement unduly restrictive such that they may potentially hinder research? Would academics be opposed to a requirement that a copy of all derivative works that rely on the Academic TRACE Data be provided to FINRA upon publication?

▶ How would dealers or other market participants be impacted if dealer identities were reverse engineered? Is there data or other evidence, including studies or research, that supports estimates of these impacts?

Endnotes

1. *See* MSRB Notice 2015–10 (July 16, 2015), on *www.msrb.org*.

2. FINRA will not edit personal identifying information, such as names or email addresses, from submissions. Persons should submit only information that they wish to make publicly available. *See Notice to Members 03-73* (November 2003) (Online Availability of Comments) for more information.

3. *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.

4. FINRA adopted the Historic TRACE Data rule and related fees in 2010. *See* Securities Exchange Act Release No. 61012 (November 16, 2009), 74 FR 61189 (November 23, 2009) (Order Approving File No. SR-FINRA-2007-006). *See also Regulatory Notice 10-14* (March 2010).

5. FINRA recently published a *Regulatory Notice* seeking comment on a proposal to shorten the delay period for the Historic TRACE Data product from 18 months to six months. *See Regulatory Notice 15-24* (June 2015). That proposal would not impact the proposed 24-month delay for the Academic TRACE Data product.

6. Historic TRACE Data is transaction-level data and includes the following data sets: the Historic Corporate Bond Data Set, the Historic Agency Data Set, the Historic Securitized Product Data Set, and the Historic Rule 144A Data Set. Historic TRACE Data originally included only the Corporate Bond and Agency Data Sets; the Securitized Product and Rule 144A Data Sets were added to Historic TRACE Data later as information about transactions in those securities became subject to dissemination. Additional securities may be included in the data sets as they become subject to dissemination.

APPENDIX A

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

* * * * *

7000. CLEARING, TRANSACTION AND ORDER DATA REQUIREMENTS, AND FACILITY CHARGES

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7700. CHARGES FOR OTC REPORTING FACILITY, OTC BULLETIN BOARD AND TRADE REPORTING AND COMPLIANCE ENGINE SERVICES

* * * * *

7730. Trade Reporting and Compliance Engine (TRACE)

The following charges shall be paid by participants for the use of the Trade Reporting and Compliance Engine ("TRACE"):

(a) through (e) No Change.

System Fees	Transaction Reporting Fees	Data Fees
* * * * *	* * * * *	* * * * *
		Academic TRACE Data: Set-Up Fee — a single fee of $500 for development and set-up to receive Academic TRACE Data.
		Academic TRACE Data: Fee — $500/calendar year per Data Set for receipt of Academic TRACE Data. Redistribution of data is not permitted.

(f) Definitions

(1) through (4) No Change.

(5) "Academic TRACE Data" as used in Rule 7730 means historic transaction-level data with elements to be determined from time to time by FINRA in its discretion and as stated in a Regulatory Notice or other equivalent publication. Academic TRACE Data will be delayed a minimum of 24 months and will not include MPIDs, but will substitute an identifier for each MPID included in the Data Set. Academic TRACE Data is available only to institutions of higher education. Academic TRACE Data includes the following Data Sets:

(A) Academic Corporate Bond Data Set — includes all transactions in corporate bonds reported to TRACE, except Rule 144A transactions in corporate bonds;

(B) Academic Agency Data Set — includes all transactions in Agency Debt Securities as defined in Rule 6710(l) reported to TRACE;

(C) Academic SP Data Set — includes all transactions in Securitized Products as defined in Rule 6710(m) reported to TRACE, if transactions in the type of Securitized Products are subject to real-time dissemination under Rule 6750, but excludes historic Rule 144A transactions in Securitized Products; and

(D) Academic Rule 144A Data Set — includes all Rule 144A transactions reported to TRACE, except transactions involving a type of TRACE-Eligible Security that is not subject to real-time dissemination under Rule 6750.

(g) No Change.

* * * * *

APPENDIX B

Selected key terms of proposed data agreement. Some of these terms may be modified in the final version of the agreement.

Authorized Use

▶ Except as otherwise provided in the agreement, Licensee is granted a world-wide, non-transferable, non-exclusive, non-assignable, limited right and license to use the Academic Data Set in accordance with the agreement and its attachments, and to create and publish derivative works.

▶ Authorized use is limited to accessing, receiving, using, processing, manipulating and storing the Academic Data Set and creating and publishing derivative works in accordance with the agreement and attachments. Licensee is prohibited from disseminating the Academic Data Set or any Data contained therein to third parties.

▶ Licensee must submit to FINRA a new attachment to the agreement for each new intended use of the Academic Data Set by Licensee. Any use of the Data, by a Licensee or its Internal Users, unless expressly described in an Attachment B received by FINRA, is prohibited.

▶ Internal Users of Licensee listed on a separate attachment to the agreement are authorized to use the specifically identified Academic Data Set in accordance with the terms and conditions of the agreement and its attachments. Licensee warrants that those individuals listed in the attachment fall within the definition of Internal Users set out in the agreement.

▶ Licensee remains liable to FINRA for any breach of the agreement resulting from the action/inaction of Licensee's Internal Users or any other individual or entity that accesses the Academic Data Set via Licensee or to whom Licensee provides any derivative works.

▶ If Licensee learns of any Unauthorized Use of the Data, it shall immediately provide FINRA with written notice of the Unauthorized Use, and shall assist FINRA in investigating, halting and prosecuting, if necessary, any such Unauthorized Use. If FINRA so elects, Licensee shall assign and shall ensure that its, agents assign, all right, title and interest in and to any suit, including its subject matter, of or concerning the Data or which otherwise arises out of or is related to the agreement, to FINRA.

▶ FINRA reserves the right to monitor and review the activities of Licensee to ensure that no Unauthorized Use of the Data occurs. Licensee agrees to cooperate with FINRA, and use reasonable efforts to obtain the cooperation of its Internal Users with FINRA, at Licensee's cost, in any such review. In the event that FINRA identifies any Unauthorized Use, Licensee shall, upon notice from FINRA, immediately cease all such use and confirm to FINRA that such use has been terminated. At such time when the Unauthorized Use, in the sole, reasonable judgment of FINRA, has been cured, FINRA

may grant Licensee permission to resume using Academic Data Set and disseminating the Derivative Data. This remedy is in addition to and not in place of any other remedy FINRA may have as a matter of law or equity.

Restrictions and Redistribution

▶ As the Data includes masked identification of the FINRA Member executing the trade, Licensee will not attempt to reverse engineer or take any other measures, nor will it assist any other person or entity, in taking any measures, to discover the true identity of any FINRA Member at any time.

▶ Licensee shall not redistribute the Academic Data Set or any Data comprising the Academic Data Set to any other individual or entity with the exception of the Internal Users listed in the attachment to the agreement and shall use commercially reasonable measures to cause Licensee's Service to be configured and operated in such a manner as to protect the Data. Such measures may include, but not be limited to, the use of user IDs and passwords and other forms of entitlements to gain access to the Data. Additionally, Licensee shall administer reasonable security procedures in the place(s) where Licensee's Service and the Data are used, accessed, processed, stored or transmitted in order to ensure that the Academic Data Set remains, at all times, secure from unauthorized access or interference and to prevent the Academic Data Set from being accessed or taken from or in any way communicated, divulged or published except through authorized channels of transmission or reception.

▶ If Licensee is a Public University, terms to protect the Data from FOIA laws of Licensee's state shall be applicable.

Publication of Derivative Works

All Data results included in any draft or final version provided to or made available in any way whatsoever, to any third party, shall be sufficiently aggregated to ensure that no third party can identify any specific FINRA Member, or reverse engineer any specific transaction. Licensee shall inform all of its Internal Users and Authorized Users to act accordingly and shall take reasonable measures to ensure their compliance. **Any disclosure of the identity of any FINRA Member, whether willful or accidental, is considered a material breach of the agreement and will result in immediate Termination of the agreement for Cause**.

Termination

Immediately upon conclusion or termination of the agreement for any reason, Licensee shall, without additional cost to or demand from FINRA, return to FINRA in an orderly and expeditious manner or destroy all information, records, documentation, data, and other property supplied to Licensee by and for FINRA, and shall certify in writing that it has done so.

Exhibit 2b

List of Written Comments

1. Michael Nicholas, <u>Bond Dealers of America</u> (August 24, 2015) ("BDA")

2. Luis Palacios, <u>The Wharton School</u> (September 10, 2015) ("Wharton")

3. David L. Cohen, Sean Davy, <u>Securities Industry and Financial Markets Association</u> (September 11, 2015) ("SIFMA")

4. Carrie Devorah, <u>The Center for Copyrights Integrity</u> (September 14, 2015) ("CCI")

![BDA Bond Dealers of America]

August 24, 2015

VIA ELECTRONIC MAIL

Marcia E. Asquith
Office of the Corporate Secretary
Financial Industry Regulatory Authority
1735 K Street, NW
Washington, DC 20006-1506

RE: **FINRA Regulatory Notice 15-24: FINRA Requests Comment on the
         Reduction of the Delay Period for Historic TRACE Data**

         **FINRA Regulatory Notice 15-26: FINRA Requests Comment on a New
         Academic TRACE Data Product**

Dear Ms. Asquith:

On behalf of the Bond Dealers of America ("BDA"), I am pleased to submit this letter in response to the Financial Industry Regulatory Authority's ("FINRA") Regulatory Notice 15-24, requesting comment on a proposal to reduce the delay period for historic TRACE data sets and Regulatory Notice 15-26, requesting comment on a new academic TRACE data product. BDA is the only Washington, DC based group representing the interests of middle-market securities dealers and banks focused on the United States fixed income markets and we welcome this opportunity to present our comments on these Notices.

BDA supports initiatives to increase market transparency and investor education that do not create additional business risks for dealers. Therefore, BDA writes to support the proposal described by Regulatory Notice 15-24, to reduce the delay period for historic data sets from 18 months to six months. The data set will not identify dealers by attaching masked market participant identifiers (MPIDs). BDA believes that the risk of reverse engineering a specific dealer identity, trading strategy, or inventory is low.

However, BDA does not support the proposal described in Regulatory Notice 15-26, to create a new academic data product. That proposal does not adequately balance the risks associated with information leakage and the potential for reverse engineering a dealer identity with the benefits of academic research.

BDA does not support the proposed academic data set, which would expose dealers to new business risks

BDA appreciates the value of rigorous academic study of the fixed-income markets. However, BDA believes the proposed new academic data set would expose dealers to unnecessary business risks. The benefits of creating an academic data set, which would include masked dealer-specific identifiers, on a 24-month delay basis, are not outweighed by the business risks to dealers associated with reverse engineering of dealer identities, dealer trading strategies, and dealer inventories.

BDA believes that the data sets currently available include a sufficient level of detail to support rigorous study. The inclusion of a dealer-specific identifier in a data set would open dealers to myriad risks related to their trading strategies and business models. It is for this reason that FINRA has so far chosen to exclude a dealer identifier in its publicly disseminated information and data sets. BDA sees no compelling reason to halt that practice and urges FINRA to continue to protect dealer identities and trading strategies.

The fact that the proposal does not describe the intent to create a process to change the masked dealer identifiers, for each dealer, on a regular basis is problematic. Without changing the masked identifier, it will become much easier to identify a specific dealer based on its trading data over a longer period of time. A superior method would be to group dealers into multiple groups based on size, which would allow FINRA to reduce the risk of dealer identification.

BDA does not believe the risks to dealers associated with the academic data set proposal can be meaningfully reduced by the use of the proposed contract

Furthermore, the value of the contractual agreement which outlines the restrictions that will apply to the authorized academic data set purchasers do not adequately protect dealers. The academic studies will be detailed descriptions and analyses of the dealer-specific transactions based on the academic data set. The agreement to not attempt to reverse engineer a dealer's identity will not extend to a reader of any study. There may be specific contexts in which it may be easy for the reader of a study to identify a dealer based on an especially large percentage of trading volume in a security that the dealer has recently underwritten or due to other trading patterns in specific securities described in a study. Furthermore, nothing in the contract requires the academic institution to have a minimum required level of data security protections in place. Therefore, the valuable dealer-specific data would not be adequately protected from theft. In short, the contract does little to prevent the results it is designed to achieve—the protection of dealer identities.

In conclusion, BDA does not believe there is a compelling reason to put dealer identities at risk. While BDA supports transparency and investor education, including supporting the shortened delay period in Regulatory Notice 15-24, it cannot support the

academic data set proposed in Regulatory Notice 15-26, which puts dealer businesses at risk.

Thank you again for the opportunity to submit these comments.

Sincerely,

Michael Nicholas
Chief Executive Officer

Hi All,

These are WRDS' Comment on the Reduction of the Delay Period for Historic TRACE Data:

1.   FINRA proposes to reduce the delay period for Historic TRACE Data from 18 months to six months. Historic TRACE Data does not include masked MPID information. In light of this fact, is a six-month delay sufficient to address concerns regarding the current trading, positions or strategies of particular market participants? Please provide information to support your analysis. Are there other possible harms associated with reducing the delay period from 18 months to six (in addition to potential information leakage regarding current trading, positions or strategies)? Would the six-month delay be more detrimental for certain types of TRACE-eligible securities compared to others. Should FINRA consider setting different delay periods for different types of TRACE-eligible securities?

Comment:

During to recent developments in the fixed income market, with the introduction of new derivative instruments (such as ETFs, ETNs, Trusts, and other vehicles) and new players (stat arbitrageurs, smaller hedge funds, robo-advisors, etc), the challenges in the fixed income market, and particularly the corporate bond market have been intensifying and becoming more complex. From the point of view of academic community, which WRDS represents, more timely dissemination of Enhanced Historic TRACE database is expected to be useful. It will favor academic research on current issues which boost policymakers' understanding of potential dislocations in the corporate market for bonds and for other derivate fixed-income securities. So, they may respond more promptly by devising more effective rules and/or regulations. It would facilitate more research in the areas pertaining to the impact of TRACE on the corporate bond market and, specifically, the potential reduction in trade execution costs and pricing transparency resulting from the sooner availability of transactions data for market participants.

For example, Cici et al (2011) analyzed the pattern of pricing dispersion in six-month event windows immediately before and after the TRACE dissemination event dates and found evidence consistent with the view that the transparency-enhancing TRACE system contributed to increasing pricing precision, including a spillover effect for non-disseminated bonds. Less delayed releases of the data can also produce more timely answers to questions surrounding potentially recent mispricing of various fixed-income securities held not only by bond mutual funds, but also by bond ETFs (recent SEC inquiry into whether PIMCO improperly priced odd lots of certain non-agency mortgage-backed securities purchased by its Total Return Active BOND ETF is a good illustrative example).

More timely and time-relevant access to the TRACE transactions would speed up the process of identifying and analyzing potential episodes of discontinuous market pricing and developing mechanisms to minimize the risks associated with them. Identifying and analyzing these events are usually done by the academic community using financial databases.

2.   What public and investor protection benefits might arise from the addition of masked MPIDs to TRACE data available to academics? FINRA proposes that the Academic TRACE Data product be issued on a 24-month delayed basis. Is this delay an appropriate period of time to allay concerns regarding potential reverse engineering of dealer identities? If not, what other delay period would be appropriate to address these concerns, while still providing data that is timely enough to be useful for market research purposes? Would a shorter delay period, such as 12 months, be appropriate to enhance the timeliness of the data for research purposes while still minimizing the risk and potential impact of reverse engineering of dealer identities?

Comment:

Academic community's primary interest in having broker IDs is not related to the desire to determine the identities/names of underlying brokers, but most importantly to assess the role of brokers in bond market liquidity and price discovery process. Major data vendors provide data for academic research with masked IDs for brokers. It has been available for many years in WRDS without compromising identify of the parties. Thomson-Reuters IBES analyst forecast and recommendations database is a good example as it has been providing masked IDs for both brokerage houses as well as individual analysts since the early 80's. Another example is Ancerno (Abel-Noser) high-frequency database of institutional trades which academic researchers have used mainly for the reason that it contains a masked institution ID (e.g., Arif, Rephael and Lee, 2015; Choi and Sias, 2012).

So far WRDS is unaware of cases when availability of masked IDs led to successful reverse engineering and public disclosure of broker identities by academic researchers. Broker ID is very important in studies that try to control for fixed effects associated with specific brokers. For example, in "The Market for borrowing corporate bonds" by Asquith, Au, and Pathak (2013), authors use brokerid as a control variable in estimating the borrowing cost of corporate bonds, which allows for much cleaner identification and analysis of borrowing cost of corporate bonds after controlling for broker-related fixed effects. Other researchers used masked broker IDs to study the structure of the dealer network and how it is related to bid-ask spreads in the market for Registered and Rule 144a securitizations. Furthermore, validity of many econometric tests also depends on the researcher's ability to cluster the test statistics

not just by individual bonds, but also by brokers, as it results in more informative and accurate inferences and not related in any way to attempts to reverse engineer the identity of the brokers.

Additional important challenge using TRACE data, is the absence of a historical identifier database that properly maps TRACE securities to their historical secondary identifier (issue name, issuer, cusip, ticker, etc) as well as the characteristics of such issues in the time series (coupon rate, frequency, terms, maturity date, ratings, etc.). The absence of such info jeopardizes any attempt to process and analyze TRACE data. One solution is to provide historical snapshots to the MASTER ID table that FINRA provides online.

Luis Palacios, PhD

Director of Research Services, WRDS

The Wharton School

Saint Leonard's Court #300

3819 Chestnut St

Philadelphia, PA 19104

sifma®

Invested in America

September 11, 2015

Marcia E. Asquith   Ronald W. Smith
Office of the Corporate Secretary   Corporate Secretary
Financial Industry Regulatory Authority   Municipal Securities Rulemaking Board
1735 K Street, NW   1900 Duke Street
Washington, DC 20006-1506   Alexandria, VA 22314

Re: **FINRA Regulatory Notice 15-26,**
        FINRA Requests Comment on a New Academic
        TRACE Data Product

        MSRB Regulatory Notice 2015-10,
        Request for Comment on Establishment of an
        Academic Historical Trade Data Product

Dear Ms. Asquith and Mr. Smith:

The Securities Industry and Financial Markets Association ("SIFMA")[1] appreciates the opportunity to comment on the Financial Industry Regulatory Authority's ("FINRA's") Regulatory Notice 15-26 and the Municipal Securities Rulemaking Board's ("MSRB") Regulatory Notice 2015-10 (together the "Proposals"). In response to requests from certain parties, the MSRB and FINRA are proposing to create new Real-time Transaction Reporting System ("RTRS") and Trade Reporting and Compliance Engine ("TRACE") Academic Data Products that would include anonymized dealer identifiers. The RTRS and TRACE Academic Data Products would be made available only to institutions of higher education and would include the same transactions included in the current historical transaction data sets. The MSRB and FINRA propose to take measures to allay concerns regarding the potential for reverse engineering of anonymized dealer identifiers to determine dealer identities by: (1) explicitly requiring subscribers to agree that they will not attempt to reverse engineer the identity of any dealer; (2) prohibiting the redistribution of the data in the RTRS Academic Data Product and TRACE Academic Data Product; (3) requiring users

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[1] SIFMA is the voice of the U.S. securities industry, representing the broker-dealers, banks and asset managers whose 889,000 employees provide access to the capital markets, raising over $2.4 trillion for businesses and municipalities in the U.S., serving clients with over $16 trillion in assets and managing more than $62 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.

to disclose each intended use of the data (including a description of each study being performed and the names of each individual who will have access to the data for the study); and (4) requiring that the data be returned or destroyed if the agreement is terminated.   The transactions included in the RTRS and TRACE Academic Data Products will be aged no less than 24 months.

SIFMA continues to support the MSRB's and FINRA's efforts to improve market transparency to investors and promote regulatory efficiency. To this end, we suggest certain modifications to the Proposals.

I.   Access to data by Regulators

SIFMA believes it is important to note in the context of the Proposals that regulators have real time access to RTRS data and TRACE Data, including dealer identifiers, for market surveillance and enforcement purposes. We agree with the MSRB and FINRA that not all information or transactions reported to RTRS and TRACE are necessary to serve the transparency objective of the system and therefore do not qualify for public dissemination. Among other things, information that provides the identity of each dealer that executed a transaction reported to RTRS and TRACE is not publicly disseminated.

II.   Anonymizing Dealer Identities and Reverse Engineering

SIFMA is concerned that the Proposals to use anonymized dealer identifiers to make available the RTRS data and TRACE data do not effectively protect dealers' identities. Given the unique trading structure of certain firms, (i.e., some firms will always demonstrate back-to-back trades followed by a trade with a customer), it likely will not be difficult to reverse engineer to determine certain dealer identities. A preferable approach would be to make available the RTRS data and TRACE data through groupings of comparable dealers. SIFMA suggests that the MSRB and FINRA adopt the peer group criteria used in MSRB and FINRA report cards to aggregate dealers into reportable groups. This would allow academics to track trading patterns and pricing in the secondary market, while alleviating concerns over reverse engineering. We are particularly concerned about making primary markets (P1) data available in the Academic Historical Data Product, as seems to be envisioned, given the ready ability to reverse engineer dealer identities from public information. If the MSRB and FINRA insist on making the data available on a dealer-by-dealer basis, we would propose excluding primary (P1) trades from the data set and a periodic scrambling of the dealer identity number in order to minimize the risk of reverse engineering.

The potential impact of reverse engineering could be significant. Dealer trading strategies may be deciphered through reverse engineering of MPIDs and reviewing trading patterns and practices. If dealer trading strategies are publicly known they may significantly impact a dealer's ability to provide the market with liquidity. Additionally, reverse engineering of dealer MPIDs may also lead to the potential reverse engineering of specific client transactions. The disclosure of any client specific information may reveal

confidential business information and the confidentiality of such information isn't necessarily removed by the passage of time.

III.   Scope of Internal Users and Authorized Use

The proposal contains no standard around who at the academic institutions may access the RTRS data and TRACE data. SIFMA suggests that the MSRB and FINRA amend the Proposals to include parameters around who may be considered an "Internal User" or "Recipient/Licensee". SIFMA also suggests that the MSRB and FINRA further limit "Authorized Use" to serve the purpose of research and to exclude any commercial purposes. Including such limitations will better ensure that the data is accessible by the appropriate network of users and for the purposes envisioned by the Proposals. These measures will also decrease the likelihood of data misuse and reverse engineering of dealer identities.

IV.   Likelihood of Data Breaches

Recent headlines[2] have been filled with reports of various types of data breaches[3] on systems likely far more secure than any system an academic researcher would use to store or transmit the data. Despite the well-intentioned safeguards and restrictions proposed by the MSRB and FINRA, SIFMA believes that data breaches are inevitable.   This can have a negative impact on market liquidity (i.e. revealing dealer trading and distribution strategies).

III.   Aging of Data

SIFMA believes that if the MSRB and FINRA move forward with the Proposals, the risks to data breaches and reverse engineering can be mitigated sufficiently by an aging period of no less than four years. We believe this timeframe appropriately balances the concerns raised above with researchers' desire to have access to the data with anonymized dealer identifiers.

IV.   Users of Data

SIFMA believes the Proposals limitation on providing the RTRS and TRACE Academic Data Products to "academics currently associated with an institution of higher education in connection with their research activities" may be too limiting and unnecessarily restrictive. If the MSRB and FINRA adequately address the data security and reverse engineering concerns outlined above by using peer group criteria and aging the data for no less than four years, SIFMA believes there is value in providing the RTRS and TRACE Academic Data Product to a wider, yet controlled, group of users in connection

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[2] See breach list compiled by the Identity Theft Resource Center ("ITRC"). This list is a compilation of data breaches confirmed by various media sources and/or notification lists from state governmental agencies http://www.idtheftcenter.org/ITRC-Surveys-Studies/2015databreaches.html .

[3] Data breaches occur due to a variety of reasons including accidental; employee error, negligence, or improper disposal; hacking, skimming, or phishing; insider theft; physical theft; or subcontractor/third party theft.

with their research activities and would support an expanded user group accordingly. There are many organizations engaged in research activities not associated with an institution of higher learning.[4] Any not-for-profit that has a separately identifiable Research Department and regularly publishes research reports should have access to the RTRS and TRACE Academic Data Products on the same terms as academics currently associated with an institution of higher education in connection with their research activities. However, SIFMA would not support expansion of the user group under the construct of the current Proposals.

V.   Conclusion

SIFMA sincerely appreciates this opportunity to comment upon the Proposals. SIFMA believes that by implementing the above modifications, the Proposals will provide investors with additional informative market information.

If you have any questions, please do not hesitate to contact the undersigned.

Respectfully submitted,

Sean Davy   David L. Cohen
Managing Director   Managing Director & Associate General Counsel
Capital Markets Division   Municipal Securities Division
SIFMA   SIFMA
(212) 313-1118   (212) 313-1265
sdavy@sifma.org   dcohen@sifma.org

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[4] For example "think tanks" such as The Brookings Institution (http://www.brookings.edu/research#trade/topics/), Cato Institute (http://www.cato.org/research), Pew Research Center (http://www.pewresearch.org/), Urban Institution's Housing Finance Policy Center (http://www.urban.org/policy-centers/housing-finance-policy-center). Additionally, certain trade associations (both finance and non finance-related) regulatory publish research reports. Examples include, Aerospace Industries Association (http://www.aia-aerospace.org/research_reports/), American Public Transportation Association (http://www.apta.com/resources/reportsandpublications/Pages/default.aspx), American Bankers Association (http://www.aba.com/Tools/Research/Pages/default.aspx),
American Council of Life Insurers (https://www.acli.com/Tools/Pages/Publications%20Guest.aspx), Investment Company Institute (https://www.ici.org/research), International Swaps and Derivatives Association, Inc. (https://www2.isda.org/functional-areas/research/), and SIFMA (http://www.sifma.org/research/).

cc:
Municipal Securities Rulemaking Board
Lynnette Kelly, Executive Director
Michael Post, General Counsel, Regulatory Affairs

Financial Industry Regulatory Authority
Robert Colby, Chief Legal Officer
Steve Joachim, Executive Vice President, Transparency Services

Marcia E Asquith

Office of the Corporate Secretary

FINRA

1735 K Street NW

Washington DC 20006-1506

FINRA Regulatory Notice15-24

FINRA Regulatory Notice15-26

The lack of comments to the request is stunningly shocking. This new academic product is at risk to the dealers but also to the investor.

Any data accessed online or transmitted online has no privacy. The use of T.O.R., the Onion Router and ICANN/IANA remind us there is no privacy.

Google, the Internet Archive and others copy and same all data. Ashley Madison, Google and Facebook are three prime examples that deleted is not gone. Deleted is gone until someone restores it, more often not the content creator. Julian Assange, Bradley Manning, Jonathan Pollard and Snowden are four examples of data being accessed by parties with mal-intent.

"Investor Ed" is not using investors and brokers for studies but "investor ed" is publishing required data on brokerage reps clarifying otherwise not doing so on IA v BD matters is at a cost.

All proposals and content must be compliant with the President Clinton's Memorandum On Plain Writing

[1] that was followed in 2010 with President Obama's Act On Plaint Writing.

[2] Need disclosure of the academics along with disclosure of what the academics are being paid. Need disclosure of who is accessing the data. Need a pre-disclosure of the proposed study topics in advance of the program implementation. Need to know that dead accounts, accounts a client no longer uses, are not going to be used in S.R.O. studies.

A lot of data is already missing that before F.I.N.R.A. steps in to getting permission to collect data must be addressed. Moreso, there is an ingenuousness in that programs already used by the industry are stalking clients accounts and emails and pushing product.

F.I.N.R.A. states it is about investor protection. In no particular order, for investor protection:

State in large block letters that FINRA has no oversight of investment clients and investment advisors and that any decision reached in a FINRA DRS can be litigated in a Court of Law

State in large block letters that all settlement agreements signed within the FINRA DRS forum are non binding in that Congress has given no oversight to FINRA of investment clients and investment advisors

Provide client a copy of all account papers once an investment has been accepted as a client by the firm/financial consultant.

Make it mandatory that an investor, at will, can and must be provided a cover-to-cover copy of the investment clients files and all correspondences, profiles etc.

All type fonts/picas including but not limited to disclaimers must be in a print large enough for old people and people with visual disabilities to read with or without glasses

Provide a list of all civil actions by and against the FINRA DRS arbitrators/mediators, members

Provide a list of all complaints in FINRA by and against the FINRA DRS arbitrators/mediators, members

Provide a list of all settlement agreements by and against the FINRA DRS arbitrators/mediators, members

Make each and every FINRA employee and/or DRS participant in a FINRA DRS process aware they are not protected in that FINRA is not a government agency, and that any FINRA Case Manager, Mediator/Arbitrator will be liable for criminal charges of obstruction of justice and or accessory to crimes if they block witnesses, expert witness and production of discovery requested from the FINRA business league member by the investment client complainant.

All lawyers representing clients in an financial SRO forum must provide their Bar number and the Bar number of each and every attorney participating in the DRS forum, in lead attorney or as support staff inclusive of emails, letters, texts, pleadings, faxes, voicemails, and other communications, electronic of otherwise.

Advise investment clients, investment advisors, brokers and dealers that ALL lawyers arguing in a FINRA forum must be licensed in compliance to the local Bar association, that any lawyer arguing in a FINRA forum without being licensed in the local forum cannot collect fees for representing a client.

Advise investment clients, investment advisors, brokers and dealers that ALL lawyers arguing in a FINRA forum without being licensed in compliance with local and state law is to be reported to that lawyers foreign state Bar Association without repercussion to the complainant. Any steps taken directly or indirectly against the complainant to the Bar, will result in criminal charges to that attorney and/or the person through which communications were transmitted, 2nd or 3rd party or otherwise.

A lawyer who threatens a complainant to the attorneys Bar Ethics committee will suffer criminal charges.

All out-of-state lawyers representing clients must either seek and be granted permission to argue in that forum prior to beginning to represent their client in the proceeding or, in the alternative, find a local attorney to turn represent the client. The attorney can seek pro-hac vice. There can be no grey area,

representing a client's interests, even by correspondence, in a state where the attorney is not licensed is practicing law without a license in that state. The attorney practicing law in a foreign state without the proper licensing or submitting Pro Hac Vice is doing so knowing they are accepting the punishing terms their home state has determined in to that state's bar association.

Advise investment clients, investment advisors, brokers and dealers that ALL lawyers arguing in a FINRA forum must be licensed in compliance to the local Bar association.

FINRA is not a neutral forum. FINRA is a 501 (c)(6), a business league that collects dues from its business league members, the persons/entities that investment clients brought complaints against. Groups like P.I.A.B.A., N.A.S.A.A. themselves are business leagues that, like FINRA are using investment clients misfortunes for the benefit of the group's membership.

All SRO's as legislated by Congress to be able to exist, not just the singular SRO FINRA that the SEC has allowed to act as the only SRO, must publish publicly on their website the names and identities and resumes of all the participating Arbitrators/mediators along with all the arbitrators/mediators decisions, parties, providing a voting record similar to what one would find in the court records as do J.A.M.S., Fed. Arm., WIPO, World Intellectual Property Organization records.

In that F.I.N.R.A. is a business league accepting dues from its members, F.I.N.R.A. is not neutral, is unable since not being a neutral forum to conduct Arbitrations between investment clients, investment advisors and F.I.N.R.A. members. In that F.I.N.R.A. has been conducting arbitrations under false impression that approved by Congress, all arbitrations since 2007 involving investment clients, investment advisors, must be annulled along the investment client the opportunity to take their claim to the proper forum the courts that F.I.N.R.A. blocked, obstructing justice. A F.I.N.R.A. claim that a client made that decision was allowed to be conducted in a F.I.N.R.A. forum is an obstruction of justice, that will not be barred being revisited by any claim of Statue Of Limitations having passed.

Any decision within F.I.N.R.A. that was appealed in the Courts will be given the same consideration of being reviewed and annulled if the matter was presented to the Court as having been arbitrated compliant to the F.A.A., Federal Arbitration Act.

F.I.N.R.A. members are licensed on a state by state license basis which subjects F.I.N.R.A. members to state law, the U.C.C., Universal Commercial Code, not Federal law as F.I.N.R.A. claims its arbitrations are bound by. The F.A.A. is for Maritime issues. The way this is going F.I.N.R.A. is a sinking ship. Maybe maritime law should apply.

FINRA must make sure that each BD/Brokerage provide U4's that are completed with fingerprints and are signed rather than as exist currently, many are unsigned without fingerprints attached. Fingerprints and signatures are required by law enforcement that are mandatory in determining frauds of forgery and theft.

F.I.N.R.A. has two codes of procedure, one code of procedure for its members and one code of procedure for investors. F.I.N.R.A. should not have a code of procedure for investors. Congress' laws the S.E.C. is supposed to effect are for disputes between brokers and brokerages.

Provide list of all regulators decisions against firm by any agency- FTC, CFTC, IRS, etc

F.I.N.R.A. does not define 3rd parties, not stating, if, for example, the United Nations, Swift, the Egemont Group or others are going to be users of the data. A public university is just that a public university no different than the university that the Hathi Trust attached itself to for claim of non profit status accessing data, books, from which the Hathi Trust makes money, no different than Stanford University from which the evolving technologies already taking people's analytics have been developing new product up to and including Alphabet Holdings, a black hole concept that F.I.N.R.A. does not require its dues paying members to declare what is gone on inside the Holdings name. Simply, there is no trail, no accountability for the harmed party.

The proposed periods of time have no bearing in that in a climate of fraud that F.I.N.R.A. has been perpetrating on the investment Main Street is still a climate of fraud. 12 months or 24 months makes no difference. The clients identity is proprietary.

In that the Academic Trace Data provides that elements are to be determined from time to time by FINRA in its discretion, this is a train wreck determined to happen, derailed in F.I.N.R.A.'s favor not for the benefit or gain of the Investment client F.I.N.R.A. uses to achieve its non profit status.

The Academic Trace Data is a thinly disguised existing concept in the tech industry and markets. A horse of a different color will always just be a horse of a different color as is F.I.N.R.A. still is the NASD running the old end game, at a cost to Main Street.

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[1] www.plainlanguage.gov/whatisPL/govmandates/memo.cfm

[2] www.plainlanguage.gov/plLaw/index.cfm

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Sincerely

Carrie Devorah

562 688 2883

Founder

THE CENTER FOR COPYRIGHTS INTEGRITY

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With the continuing crossing and interfacing of platforms both on & off line both with & without our knowledge nor approval to note nothing sent over the Internet anymore is ever private nor should be presumed to be so. If it is that much of a secret, say nothing. If you must? Take a lesson from our military- hand write the note, chew then swallow

EXHIBIT 5

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

* * * * *

7000. CLEARING, TRANSACTION AND ORDER DATA REQUIREMENTS,

AND FACILITY CHARGES

* * * * *

7700. CHARGES FOR OTC REPORTING FACILITY, OTC BULLETIN BOARD

AND TRADE REPORTING AND COMPLIANCE ENGINE SERVICES

* * * * *

7730. Trade Reporting and Compliance Engine (TRACE)

(a) through (d) No Change.

(e) Academic Corporate Bond TRACE Data

Academic Corporate Bond TRACE Data comprises historic transaction-level data

on transactions in corporate bonds. Academic Corporate Bond TRACE Data is available

only to institutions of higher education. Recipients of Academic Corporate Bond

TRACE Data shall be required to execute appropriate agreements with FINRA.

(f) Other Requests for Data

FINRA may impose and collect charges for data FINRA supplied upon request,

where there is no provision elsewhere in this Rule 7730 for charges for such service or

sale.

[(f)](g) Definitions

(1) through (4) No Change.

(5) "Academic Corporate Bond TRACE Data" as used in Rule 7730 means historic transaction-level data on all transactions in corporate bonds reported to TRACE (except a transaction that is a List or Fixed Offering Price Transaction, as defined in Rule 6710(q), or a Takedown Transaction, as defined in Rule 6710(r)), including Rule 144A transactions in corporate bonds, with elements to be determined from time to time by FINRA in its discretion and as stated in a Regulatory Notice or other equivalent publication. Academic Corporate Bond TRACE Data will be delayed a minimum of 36 months and will not include MPIDs, but will substitute a masked dealer identifier for each MPID included in the data.

[(g)](h) FINRA ADDS Fees

The FINRA Automated Data Delivery System ("FINRA ADDS") provides a member access to TRACE trade journal files. The following fees are for two optional FINRA ADDS services: TRACE Data Delivery Plus and TRACE Data Delivery Secure File Transfer Protocol.

(1) through (2) No Change.

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