7 April 2015

By Email (pubcom@finra.org)

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

Re: FINRA Rule Proposal 15-03, to Require Alternative Trading Systems to Submit Quotation Information for Corporate and Agency Debt Securities

Dear Ms. Asquith:

On behalf of OpenBondX LLC ("OBX"), I am submitting comments on the rule proposal to require alternative trading systems ("ATSs") to submit quotation information relating to corporate and agency debt securities to FINRA solely for regulatory and "exploratory" purposes.

As per the Rule Proposal:

> "The proposed reporting requirement would strengthen FINRA's overall regulation, and particularly its automated surveillance of fixed income trading by providing additional information on prevailing market conditions. FINRA may detect compliance violations and potentially manipulative behaviors in fixed income instruments more effectively with the assistance of the quotation data. The proposed reporting requirement would also enable FINRA to study the data submitted by ATSs to assess the existing information available to ATS subscribers and to more fully explore the implications of the differences between the fixed income and equity markets[1]"

As capital markets trading veterans, we believe that any benefits to investors and the fixed-income marketplace from the Rule as proposed, in general would be miniscule—and be far outweighed by the costs of implementation and ongoing compliance--for several reasons:

- The current electronic ATS volume for US corporate bonds is approximately 15% of overall trading volume and mainly confined to smaller retail size prints under $1m. Collecting such an incomplete data set is of little use for any meaningful analysis. This effort would provide very little actionable information about the "prevailing market conditions" that you seek.

- By limiting the purview of this rule proposal to ATSs, FINRA would be disregarding the vast majority of quoting activity in Corporate and Agency Debt Securities, which is conducted telephonically, through electronic message systems such as Instant Bloomberg, and through proprietary bulletin-board-type quoting and trading systems. The volume of trades that are

[1] https://www.finra.org/sites/default/files/notice_doc_file_ref/Notice_Regulatory_15-03.pdf page 4

initially commenced on Bloomberg's ALLQ system is likely far larger than all current fixed-income ATS volume combined.

- Given the relatively small fixed-income trading volume on electronic ATSs, we fail to see how sharing quotation data will be of any significant assistance in helping FINRA "detect compliance violations and potentially manipulative behaviors in fixed income instruments more effectively." FINRA is statistically more likely to uncover such violations and behavior in non-ATS systems, where the overwhelming majority of trades take place in a regulatory netherworld.

We believe that the current rule proposal should be refined substantially in order to capture a more complete and accurate data set of fixed income quote and order activity before it is considered for use towards any type of regulatory action.

While OBX supports FINRA's stated mission of "investor protection and market integrity[2]", OBX fails to see any immediate or short-term tangible benefit to fixed-income investors and participants resultant from FINRA's efforts to "more fully explore the implications of the differences between the fixed income and equity markets." Instead, changes that can provide more immediate and tangible benefits to fixed income investors and markets relating to fixed-income trade reporting should be addressed first, beginning with certain critical shortcomings in the "Bond Trade Dissemination Service^sm" ("BTDS^sm") described below. These proposed changes to BTDS directly support FINRA's stated mission and need to be addressed prior to the implementation of any rule aimed at researching fixed income market structure. The benefits of the proposed rule may be realized eventually and indirectly, but only if the scope of the proposal is expanded as suggested previously.

As per FINRA's own description of BTDS[3]:

> "FINRA's Bond Trade Dissemination Service (BTDS) broadcasts last sale price and other relevant trade data for U.S. dollar-denominated, investment grade and high yield corporate bonds, church bonds and equity-linked notes to authorized market data vendors. As the transactions are entered into TRACE, FINRA automatically generates data messages to be disseminated real-time on BTDS."

BTDS data is sourced from FINRA's TRACE system, when "as the transactions are entered into TRACE, FINRA will automatically generate data messages to be disseminated real-time on BTDS[4]." The TRACE last-sale trade reports are "cleansed" by FINRA prior to the data being disseminated out on the BTDS feed. Following are what we at OBX believe to be inadequacies in the BTDS feed that limit its usefulness:

1. **Quantities not fully disclosed**. Trade quantities for high-*grade* bonds do not always show the actually trade quantity. Specifically, if the par value of the transaction is less than or equal to $5 million, the quantity will state the actual par value of the trade, but If the par value of the transaction is greater than $5 million, the quantity field will show 5MM+.[5] Similarly, trade quantities for high-*yield* bonds do not always show the actual trade quantity. When the par value of the high

---

[2] www.finra.org/AboutFINRA/
[3] www.finra.org/web/groups/industry/@ip/@comp/@mt/documents/appsupportdocs/p125841.pdf page 1-1
[4] Ibid
[5] www.finra.org/web/groups/industry/@ip/@comp/@mt/documents/appsupportdocs/p125841.pdf page 7-9

yield transaction is greater than $1 million, the quantity field will only show 1MM+.[6] OBX believes that the fixed-income market can only be made more efficient with full transparency and disclosure of the size of each and every trade. By explicitly removing the size of larger transactions, FINRA's objectives of "investor protection" and "market integrity" are counteracted. Indeed, all market participants, with the possible exception of bond dealers, would benefit from having full pricing transparency and full disclosure of size for large trades. We fail to see who benefits by obscuring the full size of larger transactions, especially as FINRA already possesses this data and needs to take additional deliberate steps to obfuscate larger trade sizes onto the BTDS feed.

2. **<u>Time delays in a "real time" feed</u>**. BTDS, due to the permissible lag in its TRACE trade-reporting source, hardly can be considered real-time, although the feed is described and promoted as such[7]. As per FINRA Rule 6730(a)[8], "A member must report a transaction in a TRACE-Eligible Security within 15 minutes of the time of execution". If a TRACE print can be delayed up to 15 minutes after the time of actual execution, this will obviously flow through to the corresponding BTDS trade print that is disseminated.

   In September 2012, the SEC fined the New York Stock Exchange $5 million for time delays, for equities, in contributing to the consolidated SIP feed versus other direct NYSE order-book feeds, with average delays exceeding 25, 50, or 100 milliseconds, and several periods with more than 10% of quotes delayed by more than 1 second[9]. We are not implying that the BTDS feed is violating any SEC or other SRO requirements in any way, rather we are illustrating that If the SEC considers these time delays unreasonable for equities, we do not understand how potential 15 minute trade-reporting delays for bonds can be considered either reasonable or real time – as it is essentially the real-time distribution of trade prints delayed up to 15 minutes.

   Permitting market constituents to report trades at their discretion at up to 15-minute time delays obfuscates the true state of the market and current trade prices, especially for highly liquid bonds, leaving buy-side traders at a disadvantage, having to rely on a potentially stale last sale tape.

   In that TRACE trade reports may be submitted via the FIX protocol, the standard messaging protocol for electronic trading that virtually all EMS/OMS providers are capable of writing to, we believe that requiring TRACE trade prints to be submitted on a timelier basis should be a priority now. More timely TRACE prints would in turn provide more up-to-date BTDS data to the fixed-income marketplace, which can only increase market efficiency. We recognize that a fair amount of industry coordination would be required, but we suggest that FINRA commence a phased approach to bring fixed-income data and trade reporting more in line with the norm in other asset classes, to the point where eventually it becomes truly "real time."

3. **<u>Inconsistent price disclosure that may or may not include dealer remuneration</u>**. TRACE trade reports include—but do not break out--any broker or dealer remuneration. Viewers of the BTDS feed looking to assess the actual clean executed price of a bond trade have no accurate reference source, unlike their counterparts trading other asset classes. To maintain a fair, efficient and

---

6 Ibid

7 http://www.finra.org/sites/default/files/AppSupportDoc/p014321.pdf

8 http://finra.complinet.com/en/display/display_main.html?rbid=2403&element_id=4402

9 www.sec.gov/litigation/admin/2012/34-67857.pdf page 7

transparent market, any dealer remuneration (whether markup/markdown or commission) should be excluded from each and every BTDS print so that investors have accurate information on which to base their decisions. Factoring in trade remuneration on non-interdealer trades and then analyzing price/yield volatility on all trades, interdealer and non-interdealer, would lead one to believe that trade prices may be more volatile than they actually are. Only by performing an "apples-to-apples" comparison can true prices and the resultant price volatility be accurately measured, as can be done in the equity markets today.

OBX applauds FINRA's efforts to monitor, assess and regulate the fixed-income community in order to protect investors and ensure fair markets. However, we feel that FINRA's resources are best utilized by *first* addressing the aforementioned deficiencies in order to make an immediate and tangible impact in the fixed income marketplace. Once more accurate and timely last-sale trade data is disseminated, then a focus on collecting and analyzing fixed-income order data, beyond the ATS subset, should be assessed.

Thank you for your consideration.

Respectfully submitted,

Alistair W. Brown
Chief Executive Officer
OpenBondX LLC

John Jacobs
Chief Operating Officer
OpenBondX LLC

cc: SEC Commissioner Daniel M. Gallagher