

FINANCIAL INFORMATION FORUM

February 15, 2024

By electronic mail to rule-comments@sec.gov

Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
Attn: Secretary

Re: File Number SR-FINRA-2024-004: Notice of Filing of a Proposed Rule Change to Amend FINRA Rule 6730 (Transaction Reporting) to Reduce the 15-Minute TRACE Reporting Timeframe to One Minute

File Number SR-MSRB-2024-01: Notice of Filing of a Proposed Rule Change to Amend MSRB Rule G-14 to Shorten the Timeframe for Reporting Trades in Municipal Securities to the MSRB

Dear Secretary,

The Financial Information Forum (“FIF”)¹ appreciates the opportunity to comment on the above-referenced Notices of Filing published by the Securities and Exchange Commission on January 19, 2024² and the associated rule filings (the “rule filings”) submitted to the Commission by the Financial Industry Regulatory Authority, Inc. (“FINRA”) and the Municipal Securities Rulemaking Board (“MSRB”).³ The

¹ FIF (www.fif.com) was formed in 1996 to provide a centralized source of information on the implementation issues that impact the securities industry across the order lifecycle. Our participants include broker-dealers, exchanges, back office service bureaus, and market data, regulatory reporting and other technology vendors in the securities industry. Through topic-oriented working groups, FIF participants focus on critical issues and productive solutions to technology developments, regulatory initiatives, and other industry changes.

² Securities Exchange Act Release No. 99402 (Jan. 19, 2024), 89 FR 5034 (Jan. 25, 2024) (Notice of Filing of a Proposed Rule Change to Amend MSRB Rule G-14 to Shorten the Timeframe for Reporting Trades in Municipal Securities to the MSRB Securities). Exchange Act Release No. 99404 (Jan. 19, 2024), 89 FR 5384 (Jan. 26, 2024) (Notice of Filing of a Proposed Rule Change to Amend FINRA Rule 6730 (Transaction Reporting) to Reduce the 15-Minute TRACE Reporting Timeframe to One Minute).

³ SR-FINRA-2024-004, Proposed Rule Change to Amend FINRA Rule 6730 (Transaction Reporting) to Reduce the 15-Minute TRACE Reporting Timeframe to One Minute (Jan. 11, 2024), available at https://www.msrb.org/sites/default/files/2024-01/SR-MSRB-2024-01_0.pdf (“MSRB Rule Filing”). SR-MSRB-2024-01, Proposed Rule Change to Amend MSRB Rule G-14 to Shorten the Timeframe for Reporting Trades in Municipal Securities to the MSRB (Jan. 12, 2024), available at <https://www.finra.org/sites/default/files/2024-01/sr-finra-2024-004.pdf> (“FINRA Rule Filing”).

FINRA rule filing proposes to reduce to one minute the timeframe for reporting to the FINRA Trade Reporting and Compliance Engine system (“TRACE”) securities that are currently subject to 15-minute reporting.⁴ The MSRB rule filing similarly proposes to reduce from 15 minutes to one minute the timeframe for reporting trades in municipal securities to the MSRB’s Real-Time Transaction Reporting System (“RTRS”).⁵ Given the similarity of the proposals in the two rule filings, FIF is submitting a single comment letter to comment on both rule filings. This comment letter is focused on implementation issues relating to the two rule proposals.

FIF members support the exceptions set forth in the FINRA and MSRB rule proposals

FIF members support the exceptions set forth in the FINRA rule filing for “(1) member firms with ‘limited trading activity’ in the TRACE-Eligible Securities that are subject to one-minute reporting, and (2) manual trades.”⁶ FIF members similarly support the exceptions set forth in the MSRB rule filing for dealers with limited trading activity and for trades with a manual component.⁷ FIF members appreciate that FINRA and the MSRB have taken steps to address some of the concerns of FIF members and other market participants as to the potential impact of the initial FINRA and MSRB proposals⁸ on trading activity that involves manual execution or manual reporting. FIF members reiterate the concerns from our prior comment letter as to the importance of FINRA and the MSRB providing an exception for manual activity:

Absent an exception for manual trade executions, the FINRA and MSRB rule proposals would severely impair the ability of firms to continue to trade manually. Restricting how firms can trade will result in less liquidity and wider spreads and ultimately will be to the significant detriment of end investors. Requiring that manual trades be reported within one minute, in addition to adversely impacting larger dealers (including banks) and their customers, will adversely impact a very significant number of small and mid-size dealers (including banks) and their customers.⁹

FIF members support the fact that in both rule filings the exception for manual activity is not limited to trades that are executed manually and instead encompasses trades where manual steps are required for reporting.¹⁰ In this letter, for ease of reference, we will refer to this exception either as the “exception for manual activity” or the “manual trade exception” even though the exception is broader than manual

⁴ FINRA Rule Filing, at 3.

⁵ MSRB Rule Filing, at 3.

⁶ See, FINRA Rule Filing, at 9-15.

⁷ See, MSRB Rule Filing, at 12-20. FINRA and the MSRB use different terminology to describe their respective exceptions for trades that are executed manually or involve manual steps for reporting. In this letter, for simplification, we refer to this as a “manual trade exception” even though the exception applies where a trade is electronically executed and involves manual steps for reporting.

⁸ See, FINRA Regulatory Notice 22-17, FINRA Requests Comment on a Proposal to Shorten the Trade Reporting Timeframe for Transactions in Certain TRACE-Eligible Securities From 15 Minutes to One Minute, available at <https://www.finra.org/rules-guidance/notices/22-17#notice> (“FINRA Regulatory Notice”); and MSRB Notice 2022-07, Request for Comment on Transaction Reporting Obligations under MSRB Rule G-14, available at <https://www.msrb.org/sites/default/files/2022-09/2022-07.pdf> (Aug. 2, 2022) (“MSRB Notice”).

⁹ FIF comment letter to FINRA and the MSRB (Oct. 3, 2022), available at [Financial Information Forum_10.3.2022_22-17_cmt ltr for TRACE RTRS.pdf \(finra.org\)](https://www.finra.org/financial-information/forum/10.3.2022_22-17_cmt_ltr_for_TRACE_RTRS.pdf) (“FIF October 2022 Comment Letter”), at 2.

¹⁰ See, FINRA Rule Filing, at 11-13, and MSRB Rule Filing, at 15-18.

trading. In many cases -- including many alternative trading system ("ATS") and dealer trades -- one firm will automatically execute a trade and can report the trade to TRACE or RTRS in real-time, while the counter-party will need to take manual actions to report the trade to TRACE or RTRS.

FIF members believe that currently for a dealer-to-dealer trade only the sell side of the transaction triggers dissemination to the market. FIF members note that in the scenario where one firm reports a trade automatically and the dealer counter-party requires manual steps to report the trade there would be no delay in dissemination of a trade to the public if FINRA or the MSRB (as applicable) were to disseminate the trade upon submission by the first party that reports the trade (as opposed to dissemination based only on the sell side message). If the understanding of FIF members is correct that only the sell side of a transaction triggers dissemination to the market for a dealer-to-dealer trade, FIF members recommend that FINRA and the MSRB reconsider this current approach.

FINRA and the MSRB should provide an exception for the scenario where a dual registrant is required to report a large number of allocations for a single block trade

FIF members request that FINRA and the MSRB provide an additional exception for the scenario where an entity dually-registered as a broker-dealer and investment adviser ("dual registrant") is required to report a large number of allocations for a block trade that the dual registrant executes, allocates and reports automatically. A dual registrant could have thousands or tens of thousands of allocations for a single block trade, which could make compliance with a one-minute reporting requirement challenging. Given that the initial block trade will have already been disseminated to the market, immediate public dissemination of the allocations is less relevant for market transparency. It is also important not to disincentivize market participants from automating their trade execution, allocation and reporting processes. One potential approach to address this issue would be to permit reporting for this scenario within the same timeframes as is permitted for manual activity.

The scope of the FINRA and the MSRB exceptions for manual activity should be consistent

The FINRA and MSRB rule filings identify various scenarios where the manual trade exception would apply.¹¹ These scenarios are intended to be illustrative, and not exhaustive.¹² FIF members consider it important that the scope of the manual trade exception should be consistent between the FINRA and MSRB rules, as it would be burdensome for broker-dealers to have to implement separate processes based on separate definitions. FIF members also are not aware of any reason that the scope of the two exceptions should be different. If there is a difference in the scope of the two exceptions, FINRA and the MSRB should explain the reason for any difference and provide industry members and other market participants the opportunity to comment on this.

¹¹ See, FINRA Rule Filing, at 11-13, and MSRB Rule Filing, at 16-17.

¹² See, FINRA Rule Filing, at 11, and MSRB Rule Filing, at 16.

FINRA and the MSRB should consider scenarios where a firm corrects a technical issue and then submits automatically

A reporting firm could have a scenario where, as a result of a technical issue, the firm is not able to automatically submit one or more trades to TRACE or RTRS. The firm's employees could then make the appropriate system changes addressing the technical issues, which would enable the automated systems to submit the trade or trades to TRACE or RTRS. FIF members are currently discussing whether the manual trade indicator should apply in this scenario and might provide further comment on this scenario in a supplemental comment letter.

FINRA and the MSRB should default the manual flag to "true" for any transaction that is reported initially through a FINRA or MSRB user interface

FIF members note that where a firm representative inputs a transaction initially through the TRAQS web portal or other FINRA or MSRB user interface, the manual trade indicator would apply to that transaction.¹³ Accordingly, FIF members request that FINRA and the MSRB default the manual flag to "true" for any transaction that is reported initially through a FINRA or MSRB user interface.

Another scenario to consider is a manual trade correction where the original trade did not have the manual trade indicator (see discussion below).

FIF members support the determination by FINRA and the MSRB to apply the manual trade exception to the scenario where a firm has not previously traded a bond

FINRA identifies various scenarios where the FINRA manual trade exception would apply, including "... where a member trades a bond for the first time and additional manual steps are necessary to set the bond up in the firm's systems to book and report the trade (e.g., entering the CUSIP number and associated bond data into the firm's system)...."¹⁴ The MSRB rule filing similarly provides that its manual trade exception would apply,

... where a dealer trades a municipal security, whether for the first time or under other circumstances where the security master information may not already be populated (e.g., information has been removed or archived due to a long lapse in trading the security), and additional manual steps are necessary to set up the security and populate the associated indicative data in the dealer's systems prior to executing and reporting the trade.¹⁵

FIF members support this exception. This scenario is a particular challenge for municipal securities given the large number of CUSIPs for these securities.

¹³ See, FINRA Rule Filing, at 9 ("The manual trades exception would apply narrowly only to 'transactions that are manually executed' or where a 'member must manually enter any of the trade details or information necessary for reporting the trade through the TRAQS website or into a system that facilitates trade reporting to TRACE.'").

¹⁴ FINRA Rule Filing, at 12.

¹⁵ MSRB Rule Filing, at 17.

FIF members request further clarification on the exception for certain basket trades

The FINRA rule filing provides that the manual trade exception applies “... where a member agrees to trade a basket of securities at a single price and manual action is required to calculate the price of component securities in the basket or to book and report the trade in component securities to TRACE.”¹⁶ Given the way that portfolio trades are typically handled via negotiation between the firm representatives and the potential counterparty, it seems likely that a firm’s portfolio trades would be marked as manual. FIF members request confirmation that the manual trade indicator is distinct from the portfolio trade indicator that firms are required to report to TRACE. In other words, there are scenarios where the current portfolio trade indicator¹⁷ could apply without the manual trade indicator also applying (such as cases where the portfolio trade is handled electronically).

FIF members request clarification on reporting of the manual trade indicator for corrections

There are scenarios where a firm reports a trade electronically within one minute after the trade time and then manually amends the trade within 15 minutes after the trade time. Does this cause the trade to be a manual trade? Does this depend on whether the firm should have included the manual trade indicator on the initial trade report?

FIF members request that FINRA and the MSRB provide an implementation period of at least 18 months running from the date that FINRA and the MSRB publish updated technical specifications and relevant regulatory guidance

In the FINRA rule filing, FINRA writes that “FINRA ... intends to provide members with a sufficient implementation timeframe to make the changes necessary to comply with the reduced reporting timeframe (for example, approximately within 18 months from any SEC approval).”¹⁸ In the MSRB rule filing, the MSRB writes that

... if the proposed rule change is approved by the Commission, the MSRB would announce an effective date (for example, approximately within 18 months from such Commission approval) in a notice published on the MSRB website. Such effective date would be intended to maintain implementation of the proposed rule change on substantially the same implementation timeframe as the 2024 FINRA Proposed Rule Change.¹⁹

Given the number and types of systems that firms would need to update to incorporate the manual order marker proposed in the rule filings (including front-end, middleware, reporting and recordkeeping

¹⁶ FINRA Rule Filing, at 12.

¹⁷ See, FIX Specifications for the Trade Reporting and Compliance Engine system (TRACE) Trade Reporting for OTC Corporate Bonds and Agency Debt (Corporates & Agencies), Version 1.5 (May 16, 2022), available at <https://www.finra.org/sites/default/files/2022-05/FIX-Specs-CorpsAgencies-v1.5.pdf>, at 21.

¹⁸ FINRA Rule Filing, at 44.

¹⁹ MSRB Rule Filing, at 25.

systems), FIF members request that FINRA and the MSRB provide an implementation period of at least 18 months. FIF members further request that any implementation period run from the date that FINRA and the MSRB publish updated technical specifications and relevant regulatory guidance.

In setting an implementation schedule for the proposed rule changes, the Commission, FINRA and the MSRB should consider other regulatory changes (such as the recently-adopted rule change to require that “eligible secondary market transactions” in Treasuries and Treasury repos be cleared through a “covered clearing agency”²⁰) that would have overlapping implementation periods.

FIF members recommend that FINRA and the MSRB provide an interim period during which firms are permitted, but not required, to report the manual trade indicator

FIF members would be concerned about having to implement the TRACE and RTRS changes at the same time given that, for many firms, overlapping resources would be required to develop, test and implement the required changes to the two systems and to resolve issues when the changes are first introduced in production. At the same time, FIF members also would be concerned about having to report the manual trade indicator for a period of time for TRACE and not for RTRS (or vice versa). To address these concerns, FIF members recommend that FINRA and the MSRB establish an interim period (for example, for 90 days) during which a firm would be technically permitted to report the manual trade indicator for a trade that qualifies for the manual exception but would not be legally required to do so. FIF members further request that free testing be made available to industry members during this interim period and for a reasonable time prior to this interim period (for example, for 90 days).

FIF members request that FINRA provide an expanded free testing period; FIF members request that the MSRB provide test CUSIPs in the production environment

FIF members request that FINRA provide a free testing period of 90 days instead of the standard free testing period of 30 days. One area of testing focus for some FIF member firms will be the ability to submit trades within the required one-minute during a period when the firm has a high volume of transactions to report.

More generally, FIF members are concerned that the current policy of FINRA to charge industry members significant amounts for TRACE testing can disincentivize such testing. This testing is important for firms to ensure accurate TRACE reporting, which, in turn, promotes accurate dissemination of trade information to the market. FIF members recommend that FINRA reconsider its current approach of charging for testing. The MSRB currently does not charge for testing.

FIF members also recommend that the MSRB provide test CUSIPs in the production environment. The provision of test CUSIPs in the production environment is a standard and long standing practice for many reporting systems, including TRACE, and allows firms to safely test without the risk of impact to the market.

²⁰ Securities Exchange Act Release No. 99147 (Dec. 13, 2023), 89 FR 2714 (Jan. 6, 2024) (Standards for Covered Clearing Agencies for U.S. Treasury Securities and Application of the Broker-Dealer Customer Protection Rule With Respect to U.S. Treasury Securities Fund Advisers).

FIF members recommend the above enhancements to the FINRA and MSRB testing processes as these enhancements will further support accurate and timely dissemination of trade information to the market.

FIF members request that FINRA and the MSRB communicate any planned report card enhancements

FIF members request that FINRA and the MSRB communicate any planned enhancements to the TRACE and RTRS scorecards in connection with the proposed reporting changes. FIF members request that FINRA and the MSRB communicate any such planned enhancements, if applicable, in connection with their publication of updated technical specifications and relevant regulatory guidance.

FIF members request confirmation from FINRA and the MSRB that the manual trade modifier will not be included in matching criteria

FIF members request confirmation that a firm reporting the manual trade indicator for a trade and the counter-party not reporting the manual trade indicator for the same trade will not result in a dealer-to-dealer matching exception. As discussed above, there are scenarios where a firm can report a trade automatically and the counter-party to the trade requires manual steps to report the same trade.

FIF members continue to support direct reporting to RTRS

In comment letters submitted by FIF on the prior FINRA and MSRB Regulatory Notices that proposed one minute reporting, FIF expressed the concern that the current workflow for reporting trades to RTRS is not suitable for reporting trades within a one-minute timeframe due to multiple layers that reports often pass through before they are received by RTRS.²¹ In our prior comments letters, FIF recommended that the MSRB provide a mechanism to enable direct reporting of municipal bond trades by broker-dealers (including executing brokers that are not clearing firms) and their service providers.²² FIF members continue to recommend this change. Please refer to the prior FIF comment letters for additional detail about this issue.

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²¹ See, FINRA Regulatory Notice; MSRB Regulatory Notice; FIF October 2022 Comment Letter, at 6-7; and FIF comment letter to the MSRB (Apr. 27, 2023), available at [FIF-Notice-2022-07-Supplemental.pdf \(msrb.org\)](https://www.msrb.org/FIF-Notice-2022-07-Supplemental.pdf) (“FIF April 2023 Comment Letter”), at 1-2.

²² FIF October 2022 Comment Letter, at 6-7; FIF April 2023 Comment Letter, at 1-2.

FIF appreciates the opportunity to comment on the FINRA and MSRB filings. If you would like clarification on any of the items discussed in this letter or would like to discuss further, please contact me at howard.meyerson@fif.com.

Very truly yours,

/s/ Howard Meyerson

Howard Meyerson
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