FINANCIAL INFORMATION FORUM

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Via Electronic Delivery

August 15, 2016

Robert W. Errett
Deputy Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: SR-FINRA-2016-027

Dear Mr. Errett,

The Financial Information Forum ("FIF")[1] thanks the Securities and Exchange Commission ("Commission" or "SEC") and the Financial Industry Regulatory Authority ("FINRA") for the opportunity to comment on SR-FINRA-2016-027 - Proposed Rule Change to expand the Trade Reporting and Compliance Engine ("TRACE") reporting rules to include most secondary market transactions in marketable U.S. Treasury securities ("Proposed Rule").

In commenting on the Proposed Rule changes, FIF is focused on aspects with operational or implementation impacts. We are most concerned with the implementation timeframe, particularly given the numerous regulatory initiatives currently scheduled for 2017. The following outlines several specific areas where FIF members seek clarification and/or wish to offer recommendations to facilitate implementation of the Proposed Rule.

TRACE-Eligible Securities

Given that Treasury has full knowledge of the securities for which transaction reporting will be required, please confirm that Treasury will provide that input to FINRA such that TRACE-eligible Treasury CUSIPs will be included on FINRA's daily list of reportable securities; and input from the dealers will not be required for this purpose.

TRACE Reportable Transactions

FIF members question how "reopenings" are to be handled; that is, should a reopening be considered an "extended settlement date" trade (for anything other than next day settlement), or should it be reported with a "when-issued flag" including a yield and no price? FIF members recommend that when both yield and price are known, reopenings should be treated as an extended settlement trade.

Reporting Timeframes

FIF members understand that under the proposed rule, Treasury securities will be subject to end-of-day reporting, and at this time there are no plans to publicly disseminate the transaction information. (We assume there will be opportunity to provide comment at such time as dissemination is proposed.) We do expect the timeframe for reporting

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[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 trading and back office service bureaus, broker-dealers, market data vendors and exchanges. Through topic-oriented working groups, FIF participants focus on critical issues and productive solutions to technology developments, regulatory initiatives, and other industry changes.

will be narrowed over time, similar to other fixed income securities. In anticipation of reduced timeframes for reporting in the future, and to decrease the operational burden on dealers now of managing a bifurcated process, some (but not all) dealers would prefer to submit transactions on the current schedule with existing TRACE reportable transactions. Please confirm that: a) there is no prohibition against near-real time or some other schedule of intra-day submissions; b) errors on transactions corrected intra-day will not impact a firm's error statistics; and, c) there will be no additional charges or fees for corrections made to transactions submitted intra-day.

Message Formats and Fields for TRACE-reportable Treasuries

FIF members are hopeful FINRA will utilize existing message formats to the greatest extent possible. The layout for reporting GSE Agency transactions is perhaps most aligned with the requirements for Treasuries reporting. FIF members would appreciate the ability to leverage existing engines for TRACE reporting.

Upon reviewing the preliminary set of data elements, FIF highlights several items:

- An additional field for ATS MPID is required in Rule 6730 that is not included in the list of proposed data elements; FIF members prefer to keep the fields aligned with existing requirements.
- FIF members assume the "No remuneration flag" will be considered a "modifier" in order to be consistent with Rule 6730 reporting of other modifiers, as indicated in item #13.
- Because no specific accommodations have been made for reporting factors on Treasury Inflation-Protected Securities ("TIPS"), we assume this will be handled in a similar manner to reporting of securitized products; and, we prefer that factor information be required only in cases where anything other than the default settlement date or the current factor has been applied.

New Trade Modifiers

The requirements to include a ".B" or a ".S" in a trade reporting message is exceedingly difficult, primarily because as described in the rule proposal, the modifiers would apply to scenarios where there are a series of transactions. Both these modifiers would require broker dealers to establish linkages across trading platforms and systems that do not exist today. The proposed requirements assume that firms are able to associate multiple trades that may have been executed at completely different times on completely different desks, and processed independently.

The example provided in the proposed rule for the ".B" modifier was a "basis trade". A Treasury bill is typically quoted on a basis, converted to a dollar price, and compared and reported for settlement purposes. If, however, it is a combination of cash bonds and futures that FINRA is looking for, those trades are executed and processed on very separate systems.

It would be helpful to better understand what FINRA hopes to achieve in defining these modifiers, as there may be more straightforward solutions. For instance, is it FINRA's objective to identify situations where price was out of range or there may have been other factors that influenced the price?

We do appreciate that FINRA has offered a staggered implementation for the trade modifiers; however, the goals should be clearly stated as there are significant issues that would need to be addressed. With additional insight, FIF members may be able to offer alternatives that would reduce the implementation challenges, yet accomplish FINRA's objectives.

Time of Execution

It is our understanding that timestamp granularity and clock synchronization requirements for TRACE are currently at the level of seconds[2], and FINRA is proposing new Supplementary Material .04 to Rule 6730 to require that, "when

[2] In FINRA's filing of SR-FINRA-2016-005, *Rule Change to Reduce the Synchronization Tolerance for Computer Clocks that are Used to Record Events in NMS Securities and OTC Equity Securities*, it was clearly stated that "this proposal would not change the current clock synchronization requirement for members' mechanical time stamping devices or computer clocks that are used to record events for securities other than NMS securities or OTC Equity Securities".

reporting transactions in U.S. Treasury Securities *executed electronically*, members report the time of execution to the *finest increment of time captured in the member's system* (e.g., milliseconds or microseconds) but, at a minimum, in increments of seconds." We also understand that FINRA is not requiring members to update their systems to comply with a finer time increment, but simply will require members to report the time of execution to TRACE in the same time increment the members' systems capture.

FIF does not support the requirement to supply more granular time stamps if captured by an electronic system. FIF members believe that one standard for timestamps and clock synchronization should apply to all for purposes of TRACE reporting, to ensure a level playing field.

Business processes within any organization may range from highly automated electronic systems, to "high touch" procedures with heavy manual intervention and customer involvement throughout the trade lifecycle. Despite the fact that some of the business units within broker-dealer firms are keeping more granular timestamps, they are currently managed on a best efforts basis, and are not managed with the rigor that would be necessitated by more stringent (regulatory) rules.

Generally, as timestamp granularity increases and tolerances for clock offset decrease, operational challenges become more complex. This is evident where an array of systems must be managed within a single data center, or across an enterprise, and becomes problematic when the environment requires management at a consistently reliable level to remain compliant with specific regulatory standards.

FIF believes clock synchronization requirements should be broadly applied against the entire broker-dealer community. Even if some participants are technically capable or their business models justify managing more granular timestamps or lower clock synchronization tolerances, the regulatory oversight across all broker-dealers should be uniform. FIF members have serious concerns that any proposal to increase the granularity of reporting would produce misleading results, and give a false impression of precision and accuracy. FIF detailed many similar concerns in comments to the Consolidated Audit Trail ("CAT") Plan proposal.[3]

Implementation Timeframe

FIF members appreciate FINRA's statement that early publication of technical specifications is a critical prerequisite to timely implementation,

> "FINRA understands that providing sufficient lead-time between the publication of technical specification and the implementation date is critical to firms' ability to meet the announced implementation date; FINRA will work to publish technical specifications as soon as possible after SEC approval of the proposed rule change."

However, we do strive for determination of implementation dates after the industry has had an opportunity to review the specifications, assess the requirements and provide feedback as to a realistic timeframe for development and testing.

In the case of this proposal, FIF members expect to require the full 365 days for implementation, primarily due to the plethora of regulatory projects slated for 2017. Dealers are already overburdened with major industry initiatives including the move to T+2 settlement, Department of Labor ("DOL") fiduciary requirements, anticipated mark-up/mark-down disclosures on confirmations, MBS novation and margining, and the significant work that must be done in preparation for the Consolidated Audit Trail ("CAT"), to name just a few. The broker dealer community recently implemented updates to OATs and TRACE and this is a continuing theme where annually we have several IT efforts around FINRA requirement updates. With Consolidate Audit Trail approaching many of the same personnel needed to

[3] FIF CAT NMS Plan comment letter; pps. 97-116.

work on Treasuries (Non-Market Risk, Compliance, Operations and IT) will be leveraged for CAT. This should be considered carefully when determining time to market.

In addition to the full utilization of development resources, other technical constraints must be considered such as availability of test systems that may be fully consumed by mandatory testing of competing regulatory changes. Beyond initial resources required for development and testing, there could be significant hardware expense and ongoing infrastructure costs to handle increased volumes. One FIF-member firm has estimated reporting volumes will increase by two-thirds.

We also remind FINRA that there are many FINRA members with desks that hedge with Treasuries, as well as non-FINRA members, who will become subject to TRACE reporting for the first time. For those firms that do not currently have TRACE reporting obligations, this will be a <u>significant</u> build.

Conclusion

FIF wishes to thank FINRA and the SEC for providing the opportunity to comment on this proposed rule change to expand TRACE reporting to include Treasury securities. We believe consideration of FIF members' questions and recommendations would be beneficial to all firms that will be subject to TRACE reporting of Treasuries. We look forward to working closely with FINRA to finalize the technical specifications and implementation details.

Regards,

Mary Lou Von Kaenel
Managing Director
Financial Information Forum

cc: Stephanie Dumont, Senior Vice President, Director of Capital Markets Policy, FINRA
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