FINANCIAL INFORMATION FORUM

February 19, 2021

By electronic mail to pubcom@finra.org

Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1506

Re: Regulatory Notice 20-43: FINRA Requests Comment on Enhancements to TRACE Reporting for U.S. Treasury Securities

Dear Ms. Mitchell,

The Financial Information Forum (FIF)[1] appreciates the opportunity to comment on Regulatory Notice 20-43 (the Regulatory Notice) published by the Financial Industry Regulatory Authority (FINRA).[2] The Regulatory Notice solicits comment on potential enhancements to the information reported to FINRA's Trade Reporting and Compliance Engine (TRACE) facility regarding transactions in U.S. Treasury securities. In this comment letter, we refer to U.S. Treasury securities as "Treasuries". FIF members appreciate the detailed and thoughtful questions from FINRA that are included in the Regulatory Notice.

A. General recommendations

Prior to commenting on the specific proposals in the Regulatory Notice, we discuss the following recommendations from FIF members that relate more generally to the proposed changes in the Regulatory Notice:

- Describe more specifically the objective for each proposal in the Regulatory Notice
- Provide guidance on the potential impact of the concurrent TRACE proposal by the Federal Reserve
- Provide for reporting of certain data through an end-of-day reporting process

[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.

[2] FINRA Regulatory Notice 20-43 (December 23, 2020), available at https://www.finra.org/sites/default/files/2020-12/Regulatory-Notice-20-43.pdf.

- Provide greater transparency to industry members on the current criteria for rejections and unmatches as well as how the proposals would change these criteria
- Provide additional guidance on the distinction between manual and electronic executions
- Take into account challenges with implementing new fields and values
- Set the implementation timeline based on publication of technical specifications

1. Describe more specifically the objective for each proposal in the Regulatory Notice

FIF members request that FINRA describe more specifically the objective for each proposal in the Regulatory Notice. This will assist FIF members in evaluating and providing comments on these proposals. In particular, if FINRA is seeking additional data to surveil an area of concern, spelling out that concern would assist the industry in providing feedback on how that data could be provided. As an example, in the Regulatory Notice, FINRA is considering whether to require firms to report desk identifiers.[3] Understanding FINRA's objective in proposing this requirement would assist industry members in providing meaningful input on how that objective could be achieved.

2. Provide guidance on the potential impact of the concurrent TRACE proposal by the Federal Reserve

FINRA notes in the Regulatory Notice that TRACE reporting currently does not apply to banks. FINRA indicates "that the Board of Governors of the Federal Reserve System (Federal Reserve) has announced that it plans to collect data on secondary market transactions in U.S. Treasury securities from banks and will enter into negotiations with FINRA to potentially act as the Federal Reserve's collection agent for the data."[4] Subsequent to FINRA's issuance of the Regulatory Notice, the Federal Reserve issued a notice and request for comment on a proposal to implement TRACE reporting for Treasuries and agency securities by certain depository institutions.[5]

FIF members request guidance on whether the Federal Reserve proposal will have any impact on broker-dealers who report Treasury trades to TRACE. In particular, will FINRA assign MPIDs or other identifiers to the depository institutions that become subject to TRACE reporting? Will FINRA conduct validations and generate rejections and unmatches based on TRACE reports submitted by broker-dealers not matching with reports submitted by these depository institutions? Further, as discussed in more detail below, some of the proposals in the Regulatory Notice would impact the types of TRACE validations that are performed, and the expansion of TRACE reporting to certain depository institutions as proposed also could impact these validations. FIF members request clarification on the expected implementation timing of the FINRA and Federal Reserve rule proposals in relation to each other and how the Federal Reserve proposal to expand TRACE reporting to certain depository institutions would impact the proposals in the Regulatory Notice.

[3] Regulatory Notice 20-43, p. 6.
[4] Regulatory Notice 20-43, p. 2.
[5] "Proposed Agency Information Collection Activities; Comment Request", 86 Federal Register 6329 (January 21, 2021).

3. **Provide for reporting of certain data through an end-of-day reporting process**

TRACE is a real-time reporting system and ongoing connectivity with TRACE is required throughout the trading day to ensure public dissemination of corporate and agency bond trades, which are publicly disseminated.

Other data is not publicly disseminated, including execution data for Treasury trades. FINRA should clarify which categories of data that are not publicly disseminated are important for FINRA for intra-day surveillance. Data that is not important for FINRA for intra-day surveillance should be reported through an end-of-day reporting system rather than a real-time reporting system like TRACE. As an example, in the Regulatory Notice, FINRA is considering whether to require the reporting of certain new data categories, such as new fields reflecting whether an execution is manual or electronic or a trade is being cleared centrally or bilaterally. These fields would be more appropriate for an end-of-day, rather than a real-time, reporting regime.

TRACE is better suited for transaction reporting bound for dissemination. Publishing price, size, and time of executed transactions for many years is an important FINRA accomplishment. FIF recognizes that, at this time, TRACE is the only mechanism allowing regulators to see US Treasuries transactional data. However, based on the questions raised in the notice, FIF encourages FINRA to look at different ways of reporting and to continue to use TRACE for price and time information subject to dissemination. Other types of information described below can be collected through end-of-day reporting to FINRA.

4. **Provide greater transparency to industry members on the current criteria for rejections and unmatches as well as how the proposals would change these criteria**

The TRACE system rejects reports submitted by reporting parties based on TRACE system validations. The TRACE system similarly generates unmatched trade reports (unmatches) if the reports submitted by the parties to a transaction are inconsistent, as determined by TRACE system validations.

In evaluating the proposed changes to TRACE set forth in the Regulatory Notice, it would be helpful for firms to have a more detailed understanding of the current criteria that result in a rejection or unmatch in TRACE and how each of the new proposals will impact the rejection and unmatch validations applied by FINRA.

Certain proposals in the Regulatory Notice could lead to new types of rejections and unmatches. Because of the significant overhead involved in addressing rejections and unmatches, FIF members support proposals that can reduce the number and type of rejections and unmatches and would be concerned about proposals that could result in new types of rejections and unmatches.

5. **Provide additional guidance on the distinction between manual and electronic executions**

In the Regulatory Notice, FINRA is considering changes to require that members indicate whether a transaction is executed via voice or electronically. FINRA also requests feedback on the appropriate timestamp granularity for reporting manual trades.[6] To assist firms in providing feedback on these proposals and subsequent compliance with any reporting changes that are adopted, FIF members request that FINRA provide additional guidance on what constitutes a manual or electronic execution.

There are various scenarios where an execution could be considered manual or electronic. For example, assume that a trader agrees to a trade with another trader by phone or through an exchange of chat messages. One of the traders (the executing trader) then enters the trade into an order management system, which sends acknowledgment of the trade to the other trader. One way to determine whether the trade is manual or electronic would be to consider the timestamp for the execution: if the timestamp is based on when agreement was reached between the two traders (whether by phone or exchange of chat messages), the execution could be considered manual; conversely, if the timestamp is based on when the executing firm recorded the execution in its system, the execution could be considered electronic. This is one possible approach for distinguishing between manual and electronic executions, and other approaches also could be considered provided that there is clear guidance for industry members.[7]

FIF members also recommend that if firms are required to report the method of execution, this requirement should only apply to the executing firm since the reporting of this field would be determined by the operations of the executing firm, and the contra firm would not necessarily have access to this information.

6. Take into account challenges with implementing new fields and values

Based on the detailed and thoughtful questions from FINRA, it is clear that FINRA understands that many of the proposed changes will require system changes that could involve significant costs for industry members. FIF members appreciate FINRA's requests for feedback relating to these costs. Ongoing dialogue between FINRA and industry members, through this comment process and subsequent discussions, is important to ensure that FINRA's regulatory objectives can be achieved without imposing an undue burden on industry members.

Certain proposals being considered by FINRA will require firms to add new fields and report new values for TRACE reporting. Implementing new fields and values can require changes to trading desk, back-office and reporting systems, including user interface changes to the various systems. New fields and values also can require database changes. Because TRACE is a real-time reporting system, firms will be required to implement changes to real-time trading, back-office, reporting and database systems. Certain of the proposed changes also will require changes in trading workflows and trader behavior. The potential benefits of changes to TRACE should be balanced against these costs. If FINRA intends to introduce new required fields and values to TRACE, it is most efficient to require the introduction of

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[6] Regulatory Notice 20-43, pp. 5 and 10.

[7] The Order Audit Trail System (OATS) Frequently Asked Questions (FAQs) issued by FINRA provide that "an electronic order is an order captured by a member firm in an internal or external electronic order routing or execution system." See https://www.finra.org/filing-reporting/market-transparency-reporting/oats/faq/definitions, FAQ D1.

these new fields and values on a uniform date. In addition, providing for end-of-day submission of certain data will reduce the burden on firms.

7. Set the implementation timeline based on publication of technical specifications

Based on the significant technical work that will be required to implement the proposed changes and various issues where the industry will require interpretive guidance from FINRA, FIF members request that the implementation timeline for any changes commence upon the publication of updated technical specifications and the issuance of FAQs by FINRA. In other words, if firms will have a period of “n” days to implement changes required by the rule, the commencement of this period of “n” days should be the day that FINRA publishes updated technical specifications and issues FAQs in response to industry member requests for guidance.

B. Comments on the specific proposals in the Regulatory Notice

1. Execution timestamps

In the Regulatory Notice, FINRA is considering a requirement that firms report transactions “to TRACE in the finest increment of time captured by the firm’s execution system, but at a minimum, in increments of a second.”[8] In addition, “where a firm executes transactions in U.S. Treasury securities through an external system, FINRA is considering requiring that firms report such transactions to TRACE consistent with the Time of Execution communicated by the execution venue.”[9]

FIF members note that this proposal, if adopted, would require significant changes to certain firm reporting systems to match the granularity of internal and third-party execution systems. In light of these required system changes, FIF members request that FINRA communicate in greater detail the objective for this proposed change.

FIF members further request that FINRA communicate additional detail regarding timestamp validations that the TRACE system currently performs, including when validations can result in rejected and unmatched trade reports, and how the validation process would be impacted by the proposed changes. As one example, consider a scenario where Firm A executes a trade with Firm B where Firm B is the executing party, and both firms agree on the same execution time. However, Firm B reports to TRACE in a format with a lesser precision in the execution time than Firm A (for example, Firm B could report fewer zeroes after the decimal or truncate certain values at the end after the decimal). Will either of these scenarios result in an unmatch?

FINRA also requests comment on whether FINRA should “continue to permit manual trades to effectively be reported in minutes, or should reporting to at least seconds be required?”[10] To assist FIF members in responding to this question, FIF members request that FINRA communicate additional detail regarding timestamp validations that the TRACE system currently performs. FIF members also request

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[8] Regulatory Notice 20-43, p. 3.
[9] Regulatory Notice 20-43, p. 3.
[10] Regulatory Notice 20-43, p. 10.

additional guidance on what constitutes a manual versus an electronic trade, as discussed in detail in Part A above. Based on this additional information FIF members will be in a better position to comment on this question.

2. Reporting timeframe reduction

In the Regulatory Notice, "FINRA is considering reducing the trade reporting timeframe for U.S. Treasury securities to facilitate more timely availability to regulators of intraday pricing and liquidity information on U.S. Treasury securities."[11] FIF members do not object to the proposal to reduce the reporting timeframe. Some FIF members recommend a general reporting time period of two hours in place of the one-hour reporting period proposed in the Regulatory Notice. Other FIF members recommend a shorter timeframe that is harmonized with requirements in other asset classes (i.e., 15 minutes for corporate bonds).

3. Identifiers for non-ATS trading platforms

In the Regulatory Notice, "FINRA is considering changes to require members to report information regarding the identity of any non-ATS electronic trading platform through which a transaction in a U.S. Treasury security occurs…"[12] Under the proposal, "a non-ATS trading platform would include any electronic system that does not meet the definition of an ATS under SEC Regulation ATS, through which multiple parties facilitate orders, request-for-quotes (RFQs), or negotiate the terms of a trade in a U.S. Treasury security."[13] "FINRA would provide to reporters a list of non-ATS trading platform identifiers for use in populating the new field."[14]

FIF members request that FINRA provide additional detail on the objective for this proposal. If this proposal is adopted, FIF members recommend that FINRA assign MPIDs to non-ATS trading platforms. Creating a new identifier type would require additional development work and additional ongoing operational overhead for firms.

4. Trading method

In the Rule Proposal, FINRA "is considering changes to require for all transactions in U.S. Treasury securities (whether or not an electronic component to the transaction exists), that members indicate whether the transaction was executed via voice or electronically."[15] FIF member firms request FINRA to explain its objective in requiring the reporting of this information.

As discussed in detail in Part A above, FIF member firms are concerned that the distinction between manual and electronic execution is not clear. In many cases, orders and resulting executions involve a combination of voice and electronic chat communications along with electronic transmission of order,

[11] Regulatory Notice 20-43, p. 4.
[12] Regulatory Notice 20-43, p. 4.
[13] Regulatory Notice 20-43, p. 5.
[14] Regulatory Notice 20-43, p. 5.
[15] Regulatory Notice 20-43, p. 5.

acknowledgment and execution messages, such as through FIX. FIF member firms further note that this proposal, if adopted, would require firms to make significant system changes and also require changes to trader behavior to record whether an execution has been agreed by voice or electronically. Accordingly, FIF member firms do not support this proposal.

If FINRA proceeds with this requirement, it is important for FINRA to provide clear guidance as to the distinction between manual and electronic executions, as discussed in detail in Part A above. FIF members further propose that the reference to "voice" be changed to "manual" because trades can be executed manually through electronic chat messages.

5. Desk identifiers

In the Regulatory Notice, "FINRA is considering adding a new trading desk or unit identifier field for U.S. Treasury securities reporting to identify the specific desk or unit within a member firm executing the transaction."[16]

FIF members note that this proposal would require firms to make significant system changes. FIF members request that FINRA provide additional detail regarding the objective for this proposed change since, at present, FIF members expect this change to be costly and time consuming but do not understand the intent.

FIF members are concerned that different firms will have different interpretations of what constitutes a trading desk or unit. An additional complexity is introduced when firms move a trade to a different desk after execution; in other words, a trade is executed by Desk 1 at a firm, and a cancel, reversal or correction is handled by Desk 2 (or by an operations group at the firm). FIF members request guidance on how this would be reported.

The Regulatory Notice provides that firms would be required to notify FINRA of updates to desk identifiers on a next-day basis. FIF members request clarification on whether TRACE will accept an execution report filed with a new desk identifier if TRACE does not receive the identifier until the following day. FIF members also request clarification on whether TRACE will validate whether a desk identifier reported by a firm for an execution matches a desk identifier previously filed by the firm with TRACE.

If firms are required to report desk identifiers for individual trades, FIF member firms propose that firms have the ability to report these identifiers on an end-of-day basis. If desk identifiers are required, FIF members further recommend that FINRA consider using the existing series of fields in the TRACE reporting message that are currently used for reporting the branch sequence number (Tags 802, 523 and 803).[17] This could depend on how FINRA defines desk identifiers.

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[16] Regulatory Notice 20-43, p. 6.

[17] See "FIX Specifications for the Trade Reporting and Compliance Engine system (TRACE®), Trade Reporting for Treasury Securities", p. 27, available at https://www.finra.org/sites/default/files/2019-12/FIX_Specification_Treasuries_v1.5.pdf.

6. Clearing arrangement indicator

In the Regulatory Notice, "FINRA is considering requiring members to append a new indicator that would identity whether a transaction in a U.S. Treasury security will be cleared centrally or bilaterally."[18] FIF members do not understand why this information is relevant for trade surveillance purposes. If FINRA and other regulators are interested in macro information relating to trade settlement, it is more efficient for regulators to obtain this data from other third-party sources.

Reporting this field will involve a significant technical challenge because execution reporting systems often are disconnected from the settlement process. In certain cases, the settlement process may be handled at a different firm from the one that handles the execution or on subsequent days.

If this field is required, it should be reportable on an end-of-day basis because the settlement method can change after a trade has been executed based on market conditions, counter-party needs, customer requests or other factors. In addition, the settlement method should not be relevant for real-time trade surveillance.

FIF members request clarification on how firms would report this field for trades where they use the Fixed Income Clearing Corporation (FICC) for trade comparison but not for netting.

7. Multi-leg transaction modifiers

In the Regulatory Notice, "FINRA is considering whether additional modifiers to identify specific categories of multi-leg transactions involving a U.S. Treasury security are appropriate, as well as an additional modifier to indicate whether the U.S. Treasury security transaction is priced at or off market."[19] FINRA is considering proposing modifiers to identify:

- Trades involving a series of nominals
- Breakeven trades
- Trades against an interest rate swap
- Trades hedging other security types
- Any other multi-leg transaction not specified in the above categories.[20]

The proposed changes to transaction modifiers will require changes to trading workflows, as traders will need to input these values into trading desk systems.

FIF members are concerned about the challenges that firms will face in correctly identifying the type of transaction, as proposed in the Regulatory Notice. In particular, FIF members propose that FINRA amend its proposal to remove references to "hedging" in the reporting requirements. Many firms think about their transactions in terms of modifying the firm's existing exposure therefore many transactions a firm engages in reduce the firm's risk (i.e., hedge) along some dimension.

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[18] Regulatory Notice 20-43, p. 6.
[19] Regulatory Notice 20-43, p. 7.
[20] Regulatory Notice 20-43, pp. 7-8.

As opposed to a focus on hedging, it is preferable to focus on whether trades are part of the same series of transactions. Even here, it is often unclear when trades are part of the same series of transactions. For example, are orders in a basket order by definition considered to be part of the same series of transactions? To be part of the same series of transactions, is it necessary that the orders be submitted at the same time and, if so, what time parameters should be applied? Alternatively, is it necessary that the orders be grouped by the customer (or a firm, in the case of a principal order) through a single group identifier? FIF members believe that further discussions among FINRA and industry members would be required to obtain greater clarity on what guidelines firms should use to determine when orders are considered part of the same series of transactions.

FIF members also have a concern that the reporting of specific types of multi-leg transactions will require firms to reveal proprietary trading strategies.

8. Price at or off the current market

In the Regulatory Notice, "FINRA is considering, for each strategy … that members further specify whether the U.S. Treasury securities transaction is executed at a price that is at or off the current market."[21] FIF members are concerned that it is not possible to have an objective market price for many bond trades, especially less-liquid ones. The problem is compounded by the nature of public reporting in the Treasury market. There are no public reports of Treasury trades and, unlike the equity markets, there are no publicly disseminated exchange books with multiple market makers providing continuous firm two-sided quotes that collectively represent the market. Even assuming a firm is somehow aware of a simultaneous trade in the security, (a) how does the firm know whether this reported trade is "on" or "off" the market? and (b) how far away from the market would the firm's trade need to be to be considered "off"? Would this distance from the market vary based on product? Given these challenges, FIF members recommend that FINRA remove this requirement.

FIF members also request clarification on the distinction between this proposed reporting requirement and the current requirement to report the "SpecialPriceIndicator" field.[22]

9. Standardized price reporting

In the Regulatory Notice, "FINRA is considering changes to require further standardization of the measure used to report price" based on the category of Treasury.[23] FIF members support a requirement to report all trades based on the dollar price. Some firms only report based on price and would need to implement system changes to report based on a discount rate or discount margin. Having a standardized price reporting requirement also would likely reduce the number of unmatches based on price.

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[21] Regulatory Notice 20-43, p. 8.
[22] See "FIX Specifications for the Trade Reporting and Compliance Engine system (TRACE®), Trade Reporting for Treasury Securities", p. 20, available at https://www.finra.org/sites/default/files/2019-12/FIX_Specification_Treasuries_v1.5.pdf.
[23] Regulatory Notice 20-43, p. 8.

10. Report ATS fees separately

In the Regulatory Notice, “FINRA is considering requiring that members report per-transaction ATS fees separately from the price when reporting transactions in U.S. Treasury securities to TRACE.”[24]

FIF members note that in many cases the per-transaction fee for a Treasury trade on an ATS is not known until after the end of the month, at which time a volume discount is applied to the trades that a firm executed during the prior month. FIF members believe that TRACE should be used for reporting the execution price on an ATS and that a separate process, not related to TRACE, should be considered for reporting ATS fees.

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FIF appreciates the opportunity to comment on Regulatory Notice 20-43. 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
Managing Director, Financial Information Forum

[24] Regulatory Notice 20-43, p. 9.