

# FINANCIAL INFORMATION FORUM

5 Hanover Square  
New York, New York 10004

---

212-422-8568

May 7, 2009

Florence E. Harmon  
Deputy Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090.

Re: File Number SR-FINRA-2009-010

Dear Ms. Harmon,

The Financial Information Forum (FIF)<sup>1</sup> would like to take this opportunity to provide feedback on File Number SR-FINRA-2009-010. While we applaud FINRA's efforts to enhance investor protection and foster market integrity, we would like raise several implementation issues with the approach outlined in the filing. Prior to approval of the FINRA changes to Rule 6700 Series as proposed, FIF requests that the SEC require FINRA to provide clarification with significant detail on certain issues, require FINRA to provide an appropriate platform that would allow dealers to consistently comply with the rules, and grant sufficient time for dealers to build and test their systems and modify the workflows accordingly.

## **Limit Reporting Obligation to Securities listed on the TRACE-Eligible Issue Master**

When TRACE was initially introduced, the industry was assured that the TRACE Issue Master and Daily List would include all securities dealers are required to report. Since that time, FINRA has indicated that if a security falls under the definition of TRACE-eligible it is subject to reporting. The result has been a sequence of rejected submissions, resubmissions, and late trades that often result in fines. This issue will be exacerbated from both a cost and complexity perspective with the addition of agency debt and new issue corporates.

To address these concerns, we strongly recommend that FINRA provide real-time access to a current list of all TRACE-eligible corporate and agency issuers, to allow dealers to identify those issues that are reportable. To further reduce uncertainty and late fines, FIF suggests that FINRA provide specific codes on the Issue Master and Daily List to indicate issues that are exempt from 15-minute submission (e.g. primary market trades). In the event that new items are added to the Issue Master throughout the day, we would expect FINRA to provide intraday updates. To support this, FINRA could post changes to its FTP site, and each firm could poll the FTP file for changes at frequent intervals. In order to program accordingly, FINRA must define this process well in advance of the effective date of the proposed rule changes.

---

<sup>1</sup> FIF ([www.fif.com](http://www.fif.com)) was formed in 1996 to provide a centralized source of information on the implementation issues that impact the financial technology 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.

In the event that an item submitted by a dealer is not already on FINRA's Issue Master, we recommend that FINRA follow the approach taken by MSRB, where all issues are accepted and researched to determine if they should be TRACE-eligible. If not, a message should be sent to the submitter explaining that the issue is not TRACE-eligible. Additionally, FINRA should provide notification when rejecting submissions.

### **Allow Amendments and Modifications to Trade Submissions**

Consistent with MSRB reporting for municipals and OATS reporting for equities, we recommend that the TRACE platform be enhanced to allow modifications to be made to trades submitted, rather than require a full re-submission. This is particularly necessary with the addition of new issues for corporates, and with the introduction of agency debt. For instance, in the primary market trading for agency discount notes, amendments to trade details occur frequently during allocation. We would expect FINRA to allow changes to be made to trade submissions throughout the new issue period without added fees or penalties.

### **Address Operational Issues for Securities without CUSIPs**

FINRA's filing states that in expanding the definition of TRACE-eligible securities there may be securities that have not been assigned a CUSIP. For these securities, FINRA will assign a TRACE Bond Symbol. Should FINRA determine such securities are TRACE eligible, we would expect FINRA to be proactive in including them in the Issue Master. In order for dealers to design a procedure that can support compliance, the industry will require further clarification from FINRA as to how they expect this process to work. We also seek clarification on the process FINRA would employ to provide notice to dealers that a TRACE symbol has been assigned to a security that has no CUSIP.

The issues that arise with FINRA's proposal to consider certain securities without CUSIP numbers to be TRACE-eligible are not unlike those highlighted as part of FINRA's rule filing SR-FINRA-2009-004. In the approved filing, the SEC noted that FINRA "would provide guidance on reporting obligations if certain TRACE-eligible securities had for some reason not been assigned a CUSIP number. Finally, FINRA stated that it would establish an effective date that will provide firms sufficient time to make any minor operational enhancements needed to report these types of transactions."<sup>2</sup>

Including securities that do not have a CUSIP is a significant effort that is likely to increase the costs and errors of reporting. First, systems would need to query the TRACE Issue Master for matching descriptive details. This could lead to mismatches, as there is no standardized approach for describing issuer names and security descriptions. Once a security has been definitively matched and a TRACE symbol identified, dealers and their information vendors could include it in the security master file in case that issue is again traded. For some databases this may require field expansion or the addition of a new field, which can be a costly exercise with implications far beyond the TRACE reporting application.

It would be helpful for FINRA to provide examples of specific securities that they expect would be considered TRACE-eligible for reporting that do not have a CUSIP number. If the number of securities that fall into this category is negligible, we would ask FINRA to consider whether the cost of including these securities outweighs the benefits. Excluding a small number of inactively traded securities

---

<sup>2</sup> Securities and Exchange Commission [[Release No. 34-59768](#); [File No. SR-FINRA-2009-004](#)] Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval to Proposed Rule Change, as Modified by Amendment No. 1, To Expand the Definition of "TRACE-Eligible Security" April 14, 2009.

without CUSIPs would be consistent with FINRA's desire to focus only on those securities that contribute meaningfully to price discovery.

#### **Clarify Information Collection for Primary Market and Infrequently Traded Issues**

For new issues and primary market trading in both agencies and corporates, we ask that FINRA describe in more detail the messages and data fields FINRA would expect to receive regarding the security, and specifically from whom, either prior to the first transaction or at the time the first transaction is reported. There may be cases where dealers will rely on FINRA's data to obtain descriptive details for securities when deals are so small or obscure that vendors have not collected data. We are particularly interested in understanding how information would be obtained from underwriters who are not registered with FINRA, and how that information would be shared with other market participants.

Of particular concern are those issues which have not been previously traded in a firm, and may not already be included the security master file. This is in line with concerns voiced to the MSRB with reporting of secondary market trades in municipal securities that may have been issued many years prior, and taken into a firm's inventory for the first time when it is purchased from a customer. In cases such as these, we suggest that a 3-hour window would provide a reasonable timeframe to add securities to the master file, if the information is readily accessible from FINRA or some other third party.

#### **Consider Phased Approach to Compliance Effective Date**

In evaluating the approach to implementation, a critical component is the behavioral change that will be required on the part of dealers' customers. Current market practices enable investors to adjust account allocations, settlement instructions and other trade details through T+1. For these reasons, we recommend a phased approach to compliance beginning with reporting of trades in agency benchmarks and moving over time toward agency discount notes, which are issued with far greater frequency. We do recommend that dealers report as trade information becomes available and/or is updated; however, we ask that FINRA phase-in compliance for some period of time to support dealers' efforts to modify their clients' behavior and to adjust workflow processes as necessary to handle the volumes involved in reporting on agency discount notes.

#### **Allow Adequate Implementation Time given Magnitude of Effort**

As mentioned throughout this letter, FIF seeks clarification from FINRA on their specific plans and procedures for handling data collection, data access, and data distribution at various points in the process flow. For many firms, this represents a drastic change that will require significant effort and expense considering the level of system redesign and programming.

It is important to note that at most firms, agency bonds are traded on the government trading desk, not the corporate bond desk. For many, government trading systems are designed to route a trade through the back office for immediate submission to their clearing bank and/or GSCC for processing of interdealer trades; but these processes are not designed to support TRACE reporting. In contrast, front-end systems have been modified in recent years for reporting corporate trades within 15-minutes. Significant changes will be required for some to meet reporting requirements for agencies, as this may force firms to make a decision regarding where trade reporting should be driven from, that is, the front-end or the back-end. There are trade-offs in either case with respect to speed and accuracy.

There is significant work ahead for dealer firms and their service vendors to ensure readiness and their ability to comply with these requirements. At minimum, from the date FINRA publishes its final specifications, we believe that twelve months is needed for development and testing before

requirements for TRACE reporting of agency debt and primary market reporting for corporate bonds is enforced. This will allow time for development, testing and deployment to ensure accurate reporting, trade monitoring and modifications. In establishing the effective date of these rule changes, FINRA and the SEC should consider the current economic and market conditions and all other regulatory mandates and industry initiatives that are already putting a substantial drain on market participants' resources, time and money.

Expanding TRACE is a complex topic which requires further industry discussion. We look forward to having additional meetings with FINRA as they develop their plans further, and we would welcome the opportunity to provide input to work through the details and resolve the open issues.

Sincerely,

A handwritten signature in cursive script that reads "Manisha Kimmel".

Manisha Kimmel

Executive Director, Financial Information Forum