MEMO# 26679

November 12, 2012

ICI Comment Letter on FINRA Notice Regarding TRACE Reporting

[26679]

November 12, 2012

TO: CLOSED-END INVESTMENT COMPANY COMMITTEE No. 44-12
EQUITY MARKETS ADVISORY COMMITTEE No. 34-12
FIXED-INCOME ADVISORY COMMITTEE No. 27-12
MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 47-12
END OF DAY PRICING FORUM No. 10-12 RE: ICI COMMENT LETTER ON FINRA NOTICE REGARDING TRACE REPORTING

As we previously informed you, FINRA published a regulatory notice requesting comment on issues related to dissemination of information on securities transactions eligible for reporting on the Trade Reporting and Compliance Engine ("TRACE"). [1] Our letter on the Notice is summarized below.

The letter recommends that FINRA retain the current dissemination cap of $5M for investment grade corporate debt securities, and the current $1M dissemination cap for non-investment grade corporate debt securities. The letter explains that the Institute is concerned that increasing or eliminating the current dissemination caps might negatively affect liquidity for these securities, particularly given that liquidity in the corporate bond markets has declined since the financial crisis in 2008, and other pending regulatory changes, such as the Volcker Rule and certain rule proposals issued by the federal banking agencies have potentially negative, as yet unknown, implications for liquidity in the fixed-income market. The letter also states that we would not object, however, to FINRA again seeking comment on modifying the dissemination caps after the market implications of the pending regulatory changes are fully understood by market participants.

The letter points out that in response to the financial crisis, significant changes have occurred in the agency debt market that have resulted in diminished liquidity. For example, the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation each have been required to reduce the size of its portfolio of mortgage loans. Reducing their debt outstanding has led to diminished liquidity in the market for agency debt securities. To avoid further reducing the liquidity in that market, the letter recommends leaving unchanged at this time the current dissemination cap of $5M for agency debt securities. As with corporate debt transactions, the letter states that we would not object to FINRA again seeking comment on modifying the dissemination cap for agency debt securities after some period of time has passed to allow market participants to better understand the long-term implications of the recent changes in the market.

Finally, the letter recommends that Rule 144A transaction information be disseminated to the same extent as comparable non-Rule 144A transactions. [2]

Dorothy M. Donohue
Deputy General Counsel - Securities Regulation

Attachment

endnotes

[1] See Institute Memorandum to Closed-End Investment Company Committee No. 32-12, Equity Markets Advisory Committee No. 22-12, Fixed-Income Advisory Committee No. 20-12, Municipal Securities Advisory Committee No. 40-12, and End of Day Pricing Forum No. 8-12, dated September 24, 2012 [Memorandum No. 26515] (summarizing Regulatory Notice 12-39 (September 2012) ("Notice")).

[2] In particular, the letter recommends that the transaction information for investment grade corporate debt securities and agency debt securities sold in Rule 144A transactions disseminated from TRACE include the exact par value on all transactions with a par value of $5M or less and include an indicator of "5MM+" in place of the exact par value on transactions where the par value is greater than $5M. With respect to non-investment grade corporate debt securities sold in Rule 144A transactions, the letter recommends that the exact par value on all transactions with a par value of $1M or less be disseminated and an indicator of "1MM+"be used to describe any transaction in excess of $1M.
