

MEMO# 34284

September 13, 2022

ICI Draft Letter to FINRA and MSRB Regarding Shortening Reporting Timeframes: Your Comments Requested by September 19

[34284]

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TO: Fixed-Income Advisory Committee
Municipal Securities Advisory Committee
SEC Rules Committee RE: ICI Draft Letter to FINRA and MSRB Regarding Shortening
Reporting Timeframes: Your Comments Requested by September 19

In August, the Financial Industry Regulatory Authority (FINRA) and the Municipal Securities Rulemaking Board (MSRB) issued proposals and requested comment regarding reducing the trade reporting timeframe for certain transactions reported to the Trade Reporting and Compliance Engine (TRACE) and the Real-Time Transaction Reporting System (RTRS), respectively.^[1] Comments on the Proposals are due to FINRA and MSRB by October 3, 2022. We will file one letter to both FINRA and MSRB.

ICI has prepared the attached draft letter, which is summarized below, for your review and comment. We have also included questions and notes to you in the draft on which we request your response. Please provide your written comments to Kevin Ercoline at kevin.ercoline@ici.org and Sarah Bessin at sarah.bessin@ici.org no later than Monday, September 19. That will give us the opportunity to revise the draft letter and circulate a "fatal flaw" draft for a brief review before we file the final letter.

Letter Summary

The FINRA Proposal seeks comment on reducing the trade reporting timeframe for transactions in all TRACE-eligible securities subject to a 15-minute reporting timeframe to as soon as practicable but no later than one minute from the time of execution. The MSRB Proposal seeks comment on a similar proposal to reduce the trade reporting timeframe for transactions in municipal securities subject to a 15-minute reporting timeframe to as soon as practicable but no later than one minute from the time of trade. Both FINRA and MSRB would continue to disseminate the reported trading data immediately, subject to volume caps currently in place. Both FINRA and MSRB believe that reducing trade reporting

timeframes may lead to improved transparency in the fixed income markets and allow investors and other market participants to obtain and evaluate pricing information more quickly. FINRA and MSRB believe this would result in improved price discovery and formation, as well as enhanced negotiation power over dealers.

ICI's letter explains that its members are important investors in the fixed income securities markets and that ICI members have a strong interest in ensuring the integrity, quality, and well-functioning of the fixed income securities markets. The letter explains that while ICI members are generally in favor of increased transparency in the fixed income markets and more robust reporting that will increase the reliability of publicly available information, many ICI members have concerns regarding the potential effects that broadly reducing the trade reporting timeframe to one minute may have. The letter asserts that FINRA and MSRB should adopt a measured and phased approach in implementing any changes to trade reporting and dissemination, similar to what each has done over the past two decades. We state our belief that any shortened trade reporting timeframe should be implemented through an incremental, data-driven approach, with a focus on the impacts, by asset class and transaction size, that reduced reporting times may have on liquidity, market structure, and execution quality.

Section I of our letter summarizes the historically gradual implementation of trade reporting timeframes and data dissemination by FINRA and MSRB. Section II addresses the current fixed income market structure and the potential market structure impact these Proposals could have, if adopted. Section III cautions that broadly imposing a one-minute reporting timeframe, as FINRA and MSRB propose, without adequate consideration of the implications for less liquid securities or larger size transactions, may result in market participants executing transactions through electronic means, even when doing so, as discussed in Section IV, is less efficient and potentially more costly for funds and their investors. Sections V and VI discuss the operational concerns raised by a one-minute trade reporting timeframe, including the risk of an increase in inaccurate or incomplete trade data reported to TRACE and RTRS for certain "high touch" trades.

Ultimately, we recommend in the letter that FINRA and MSRB assess notional trade data, in addition to the total trade count analysis currently provided in the Proposals, to better understand the attributes of trades currently reported later than one minute before FINRA and MSRB consider requiring a shorter reporting time for these transactions. Based on the data provided by FINRA and MSRB in the Proposals, large trades and trades in thinly traded securities generally take longer than a minute to report and, according to feedback from our members, are often executed via voice or other non-electronic methods. While we agree that a one-minute trade reporting timeframe may be reasonable for the most liquid corporate bonds or smaller notional trade sizes executed electronically, transactions in less liquid securities or of larger notional volume, which are often executed through voice protocols, may not be appropriate or possible to report within a minute. We urge FINRA and MSRB in the letter to consider these characteristics of the fixed-income markets in determining which transactions should be reported within one minute. Given the greater fragmentation of liquidity in the fixed income markets, we explain that preserving the flexibility to choose among different trading protocols, including traditional voice methods, is critical to enabling market participants, such as funds, to efficiently trade less liquid securities or larger transaction sizes.

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endnotes

[1] See FINRA, TRACE Reporting Timeframe, FINRA Regulatory Notice 22-17 (Aug. 2, 2022), available at <https://www.finra.org/rules-guidance/notices/22-17#notice> ("FINRA Proposal"); MSRB, Request for Comment on Transaction Reporting Obligations under MSRB Rule G-14, MSRB Notice 2022-07 (Aug. 7, 2022), available at <https://www.msrb.org/-/media/Files/Regulatory-Notices/RFCs/2022-07.ashx??n=1> ("MSRB Proposal," and collectively with the FINRA Proposal, the "Proposals"). For ICI's memorandum summarizing the Proposals, please see ICI Memorandum No. 34245 (Aug. 9, 2022), available at <https://www.ici.org/memo34245>.

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