

**MEMO# 34301**

October 3, 2022

# **ICI Files Letter to FINRA and MSRB Regarding Shortening Trade Reporting Timeframes**

[34301]

October 3, 2022

TO: ICI Members

Fixed-Income Advisory Committee

Municipal Securities Advisory Committee

SEC Rules Committee SUBJECTS: Fixed Income Securities

Investment Advisers

Municipal Securities

Trading and Markets RE: ICI Files Letter to FINRA and MSRB Regarding Shortening Trade Reporting Timeframes

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.[\[1\]](#) On October 3, 2022, ICI filed a comment letter (linked below) on behalf of members discussing certain concerns with the proposals that many members had. We filed one letter to both FINRA and MSRB.

The FINRA proposal sought comment on reducing the trade reporting timeframe for transactions in 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 sought 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. For securities not currently subject to a 15-minute reporting timeframe, such as commercial mortgage-backed securities and collateralized debt obligations, the proposals would not affect those securities' reporting and dissemination requirements. Both FINRA and MSRB were of the belief 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 believed this would result in improved price discovery and formation, as well as enhanced negotiation power over dealers.

ICI's letter explains that our members are significant participants in the fixed income securities markets and 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 recommends that FINRA and MSRB 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 analyzes how requiring a one-minute reporting timeframe and associated data dissemination, regardless of asset class or transaction size, could negatively affect liquidity and execution quality. Section IV 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 reduced execution flexibility for some market participants and an artificial flow of order volume to electronic platforms. Section V emphasizes the importance of having accurate trade data reported and the impact that shortened reporting timeframes may have on the accuracy of reported data.

Ultimately, we recommend in the letter that FINRA and MSRB assess the notional trade data, in addition to the total trade count analysis currently provided in the proposals, to better assess the market impact that the proposals will have. Further, we recommend that FINRA and MSRB examine the attributes of large trades and trades in less liquid securities that are currently reported later than one minute before 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 are often reported later than a minute and, according to feedback from ICI's members, are often traded via voice or other non-electronic methods. Some members are concerned that reporting and disseminating large trades and trades in less liquid securities within one minute may result in reduced liquidity and increased price volatility in the fixed income markets or otherwise may not be appropriate. We urged FINRA and MSRB to consider the characteristics of the fixed income markets in determining whether market participants should have more than one minute to report certain transactions.

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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>; 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>. 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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