

MEMO# 35618

February 15, 2024

ICI Submits Comment Letter on FINRA's and MSRB's Filings with the SEC to Shorten Reporting Timeframes for TRACE-Eligible Securities and Municipal Securities

[35618]

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TO: ICI Members

Fixed-Income Advisory Committee

Municipal Securities Advisory Committee SUBJECTS: Fixed Income Securities

Investment Advisers

Municipal Securities

Trading and Markets RE: ICI Submits Comment Letter on FINRA's and MSRB's Filings with the SEC to Shorten Reporting Timeframes for TRACE-Eligible Securities and Municipal Securities

On February 15, 2024, ICI filed a comment letter in response to notices published by the Securities and Exchange Commission (SEC) soliciting comments on proposed rule changes filed, pursuant to Exchange Act Rule 19b-4, by the Financial Industry Regulatory Authority (FINRA) and the Municipal Securities Rulemaking Board (MSRB) to reduce the trade reporting timeframe from as soon as practicable but no later than 15 minutes to no later than one minute for certain transactions reported to the Trade Reporting and Compliance Engine (TRACE) and the Real-Time Transaction Reporting System (RTRS), respectively.[\[1\]](#) ICI filed one comment letter in response to both FINRA's and MSRB's rule filings.

ICI previously filed a comment letter in response to FINRA's and MSRB's proposals requesting comment on shortening the reporting timeframes.[\[2\]](#) While ICI members were generally in favor of increased transparency in the fixed income markets and more robust reporting that will increase the reliability of publicly available information, certain ICI members had concerns regarding the potential effects that broadly reducing the trade reporting timeframe to one minute may have. ICI's prior letter therefore recommended 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, and 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.

In the current letter, ICI stated that it appreciated that both FINRA and MSRB have responded to ICI's comments and amended the filings accordingly. Both filings include trade data that has been analyzed, not merely from a total trade count perspective, but based on volume and size as well. FINRA's and MSRB's analysis appears to validate ICI's initial concerns that a unilateral reduction to a one-minute reporting timeframe could create undue burdens on execution quality and liquidity with respect to large volume trades or trades in less liquid securities where execution often involves manual processes. In response, FINRA and MSRB proposed a "manual trade" exception that will maintain for manual trades the current 15-minute outer limit reporting timeframe for one year after the compliance date of any final amendments, followed by a 10-minute reporting timeframe for an additional year, and a 5-minute reporting timeframe thereafter.

ICI stated its belief that FINRA's and MSRB's proposed manual trade exception, with a shortened reporting timeframe being implemented in a phased manner over time, is an appropriate balance between shortening reporting timeframes and avoiding disruption to the marketplace or causing undue burdens. However, ICI believes strongly that FINRA and MSRB must provide opportunities for funds, advisers, and other market participants to submit data and comments as the timeframe for reporting manual trades is reduced. To address this issue, ICI recommended that FINRA and MSRB propose for notice and comment each reduced outer limit timeframe for the manual trade exception prior to FINRA or MSRB potentially shortening the reporting timeframe. Importantly, FINRA and MSRB must consider that these rules will not be implemented in isolation, but will be implemented alongside other significant rules that have recently been adopted, such as the shortened securities settlement cycle (T+1), and potentially other rules that have been proposed, such as Regulation Best Execution and rules related to the implementation of the Basel III framework. While data and comments submitted may support moving forward with the reduced reporting timeframe for manual trades, such information may also demonstrate that a longer timeline is necessary.

Kevin Ercoline
Assistant General Counsel

Notes

[1] Notice of Filing of a Proposed Rule Change To Amend FINRA Rule 6730 (Transaction Reporting) To Reduce the 15-Minute TRACE Reporting Timeframe to One Minute, Exchange Act Release No. 99404, 89 Fed. Reg. 5034 (Jan. 25, 2024), available at <https://www.govinfo.gov/content/pkg/FR-2024-01-25/pdf/2024-01395.pdf> ("FINRA Notice"); Notice of Filing of a Proposed Rule Change To Amend MSRB Rule G-14 To Shorten the Timeframe for Reporting Trades in Municipal Securities to the MSRB, Exchange Act Release No. 99402, 89 Fed. Reg. 5384 (Jan. 26, 2024), available at <https://www.govinfo.gov/content/pkg/FR-2024-01-26/pdf/2024-01394.pdf> ("MSRB Notice").

[2] Letter from Sarah A. Bessin, Associate General Counsel, ICI, to Jennifer Piorko Mitchell,

Office of the Corporate Secretary, FINRA, and Ronald W. Smith, Corporate Secretary, MSRB (Oct. 3, 2022), available at https://www.finra.org/sites/default/files/NoticeComment/Investment%20Company%20Institute_Sarah%20A.%20Bessin_10.3.2022_22-17.pdf ("ICI Letter").

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