



July 5, 2018

Via Electronic Mail (rule-comments@sec.gov)

Mr. Brent J. Fields, Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

Re: Proposed Rule Change to Amend FINRA Rule 6730 Relating to ATS Reporting of Transactions to TRACE in U.S. Treasury Securities, File No. SR-FINRA 2018-023

Dear Mr. Fields:

The Healthy Markets Association<sup>1</sup> appreciates the opportunity to comment on FINRA's proposal to further enhance TRACE reporting of treasury securities.<sup>2</sup>

The Proposal represents the yet latest step by FINRA towards providing more oversight capabilities and transparency regarding trading in treasury securities. By function of historical accident and diverse federal regulatory jurisdictions, secondary trading in treasury securities has never been comprehensively overseen.

On October 15, 2014, the secondary treasury market and associated futures and financial instruments suffered from extreme trading and pricing volatility and brought about significant attention from regulators and market participants alike to examine what happened and why. Staff from the Securities and Exchange Commission, the Treasury Department, the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York, and the Commodity Futures Trading Commission spent

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<sup>1</sup> The Healthy Markets Association is an investor-focused, not-for-profit coalition working to educate market participants and promote data-driven reforms to market structure challenges. Our members, who range from a few billion to hundreds of billions of dollars in assets under management, have come together behind one basic principle: Informed investors and policymakers are essential for healthy capital markets.

<sup>2</sup> *Notice of Filing of a Proposed Rule Change to Amend FINRA Rule 6730 Relating to ATS Reporting of Transactions to TRACE in U.S. Treasury Securities*, Rel. No. 34-83393, (Jun 7, 2018), available at <https://www.sec.gov/rules/sro/finra/2018/34-83393.pdf> (the "Proposal").



months investigating trading on that day, and ultimately released a “Joint Staff Report”<sup>3</sup> analyzing the treasury markets and what happened on October 15th.

The Joint Staff Report shined a harsh light on the existing regulatory gaps.

FINRA, which already operated the Trade Reporting and Compliance Engine (TRACE) facility for corporate bonds and other fixed income securities, was tasked with implementing a trade reporting regime for Treasury securities. On July 18, 2016, FINRA filed with the SEC a proposal to require TRACE reporting for most secondary market transactions in marketable US treasury securities.<sup>4</sup> After receiving some comments, and an amendment, the regime was approved by the SEC in October 2016.<sup>5</sup> On July 10, 2017, FINRA members began reporting treasuries transaction information to TRACE.

FINRA members engaged as counterparties must generally report their eligible trades, and ATSS that are involved in the transactions (who are also FINRA members) must report as well. When an ATS reports the trade, it will also provide the market participant identifier (MPID) of any FINRA members involved. But if the firms doing the trading are not FINRA members (e.g., hedge funds, banks, or principal trading firms (PTFs)), then the ATS reports the transaction, but the identities of the counterparties are only reported with a generic “C”. As a result, regulators know that a trade occurred, but they generally don’t know who did it.<sup>6</sup>

Unfortunately, this is common occurrence because a “significant amount of trading” in treasuries on ATSS involves firms that are not FINRA members.<sup>7</sup> In fact, as FINRA noted in the Proposal,

the majority of trades in U.S. Treasury Securities reported by ATSS do not identify the subscriber that is a counterparty to the trade. Because a significant portion of ATS trades in U.S. Treasury Securities involves unidentified counterparties, the

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<sup>3</sup> Joint Staff Report: The U.S. Treasury Market on October 15, 2014, (July 13, 2015), available at <https://www.sec.gov/reportspubs/special-studies/treasury-market-volatility-10-14-2014-joint-report.pdf>.

<sup>4</sup> Notice of Filing of a Proposed Rule Change Relating to the Reporting of U.S. Treasury Securities to the Trade Reporting and Compliance Engine, 81 Fed. Reg. 48465, (Jul. 25, 2016), available at <https://www.gpo.gov/fdsys/pkg/FR-2016-07-25/pdf/2016-17446.pdf>.

<sup>5</sup> Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, Relating to the Reporting of Transactions in U.S. Treasury Securities to TRACE, 81 Fed. Reg. 73167 (Oct. 24, 2016), available at <https://www.gpo.gov/fdsys/pkg/FR-2016-10-24/pdf/2016-25604.pdf>.

<sup>6</sup> Proposal, at 3-4.

<sup>7</sup> Proposal, at 2.



trading data available to FINRA and the official sector is incomplete.<sup>8</sup>

This is a significant limitation for effective surveillance and oversight, and has drawn concerns from regulators and market participants.<sup>9</sup> We share those concerns.

In fact, last year, the Treasury Department recommended “closing the gap in the granularity of PTF data” by requiring ATs “to identify customers in their reports of Treasury security transactions to TRACE.”<sup>10</sup> The Proposal is intended to do just that.

Under the Proposal, each ATs would be required to provide FINRA with a list of its non-FINRA member subscribers.<sup>11</sup> FINRA use that list to assign each non-FINRA member a unique MPID, which it would then send to each ATs to which that non-FINRA member subscribes.<sup>12</sup> Those ATs would then use that MPID to identify the activities of that firm.<sup>13</sup>

While we note that banking regulators should be working towards their own disclosure reforms, we do not think that this important effort should be delayed or limited as a result of that not-yet-implemented objective. Banks comprise a significant amount of the trading, and should be covered.

We also recognize that the Proposal would apply to just ATs and not all potential execution venues. As a practical matter, ATs are heavily used and are already subject to FINRA reporting. So this revision should not be overly burdens. That said, we also recognize that these reforms may lead to trading shifting to non-ATs or other venues. In such instances, it might be valuable to further expand the reporting obligations in the future.

Notably, we might prefer for FINRA to ultimately require the identification using the legal entity identifier (LEI) framework, which is already generally required for trade reporting in Europe. To that end, we encourage the SEC and FINRA to more fully embrace the

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<sup>8</sup> Proposal, at 4.

<sup>9</sup> See, e.g., Letter from David Blass, Investment Company Institute, to Brent J. Fields, SEC, at 2, Aug. 15, 2016, available at <https://www.sec.gov/comments/sr-finra-2016-027/finra2016027-2.pdf>.

<sup>10</sup> Treasury Department, *A Financial System That Creates Economic Opportunities: Capital Markets*, at 79-80, (October 2017), (“Treasury Capital Markets Report”), available at <https://www.treasury.gov/press-center/pressreleases/Documents/A-Financial-System-Capital-Markets-FINAL-FINAL.pdf>.

<sup>11</sup> Proposal, at 6.

<sup>12</sup> *Id.*

<sup>13</sup> *Id.*



LEI system and outline steps to transition from this assigned MPID process to the more universal LEI process in the years ahead.

Ultimately, the approach taken in the Proposal is reasonable, and appropriately balances the need for underlying customer information for surveillance purposes with potential privacy concerns.

We wish to thank FINRA for its hard work on the Proposal. We agree with both the Proposal's intention and approach, and hope that it will be implemented without delay.

Sincerely,

A handwritten signature in black ink, appearing to read "Tyler Gellasch". The signature is fluid and cursive, with a long horizontal stroke at the end.

Tyler Gellasch  
Executive Director

Cc: Robert Colby, FINRA  
Tom Gira, FINRA  
Stephanie Dumont, FINRA