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Invested in America

April 13, 2015

Submitted Via Email to pubcom@finra.org

Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1506

Re: ***FINRA Regulatory Notice 15-04: Proposal to Disseminate Additional Securitized Products and to Reduce the Reporting Time Frame for These Products***

Ladies and Gentlemen,

The Securities Industry and Financial Markets Association ("SIFMA"[1]) is pleased to respond to FINRA's request for comment on FINRA's proposed rule (the "Proposal") to begin dissemination of data for transactions in other Securitized Products, specifically, collateralized mortgage obligations ("CMOs"), commercial mortgage-backed securities ("CMBSs") and collateralized debt obligations ("CDOs").[2]

1. Summary of the Proposal

The Proposal would implement shorter reporting timeframes for various securitized products transactions (initially forty-five minutes for six months, then fifteen minutes), as well as real-time dissemination of trade information. Volume information would be capped at $1,000,000. For trades below $1,000,000, FINRA proposes to report trade-by-trade information in real time. For trades above $1,000,000, FINRA proposes to disseminate aggregated transaction information via both weekly and monthly periodic reports, provided that five or more transactions occurred in the security in the period. The proposal also seeks to revise new issue CMO reporting time from the earlier time that the security is assigned a CUSIP or the date of issuance of the security to no later than two business days prior to the first settlement date of the security.

2. Summary of SIFMA Views

While SIFMA members agree with FINRA that there may be benefits to price discovery as a result of dissemination of trade information regarding other securitized products, we also believe the proposal has the potential to negatively impact market liquidity, as previous proposals have done in the TBA, specified pool and the high-yield markets. We request that FINRA decrease the dissemination cap from $1,000,000 to $100,000, increase the transaction threshold for the aggregate reports from five to twenty, only disseminate secondary CMO trades, and

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[1] SIFMA brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit www.sifma.org.

[2] FINRA Regulatory Notice 15-04, available here: http://www.finra.org/sites/default/files/notice_doc_file_ref/Notice_Regulatory_15-04.pdf

remove last price and last trade date from the aggregate reports. We also offer granular comments on the proposal.

3. Maintaining and Enhancing Market Liquidity, Not Enhancing Price Discovery, Should be the Highest Priority

SIFMA members are focused on ensuring continued liquidity of the securitized products markets. We are concerned that price dissemination can harm liquidity as our members believe has happened in the high-yield bond, TBA and specified pool markets. Our concern is that the negative impacts of price dissemination could extend to the CMO, CDO, and CMBS markets as defined in the proposal. SIFMA's buy- and sell-side members have consistently noted impairment of liquidity in the TBA MBS markets since dissemination was introduced in 2012. To summarize, members view the implementation of dissemination of trade information for TBAs as having contributed to an overall decrease in liquidity in this market, due in large part to a decrease in the willingness of market makers to take on risk especially in meaningful size. Market makers are less willing to take on large trades from their buy-side counterparties when the identity of their position becomes immediately known. Similar effects have been noted in other markets subject to dissemination, in particular the MBS specified pool market and the high yield corporate market. In these markets, we believe that the benefits of improvements to price discovery have been outweighed by the cost of decreased liquidity, and we continue to strongly urge FINRA to revise the dissemination paradigm it has created.

4. Dissemination Caps should be Lowered

SIFMA members believe the dissemination threshold should be lowered from $1,000,000 to $100,000 to ensure only truly retail-sized transactions securities are subject to real-time dissemination. The lowered threshold should not be detrimental to retail investors since they are generally involved in trade sizes of less than $100,000.

A primary concern with the $1,000,000 threshold is that the disseminated information could be misleading to retail investors, particularly in regards to CMOs. When CMOs trade in the inter-dealer market, they trade at larger sizes than is typical for retail transactions. As a CMO is paid down, a bond with an original face of $1,000,000 can get factored down to as low as $10,000 and pricing on smaller trades can be different from pricing on larger trades. Therefore pricing information on institutional trades could be misleading to retail investors who are relying on a price reported to TRACE based off the original face.

As FINRA knows, the structure of CMOs and other securitized products can be complex. Structures may contain dozens of tranches, each unique, relatively small, and not necessarily comparable. Unlike corporate or municipal bonds, mortgage-related products have average life variations that are uniquely dependent on mortgage prepayments. This market is already illiquid and disseminating larger sized trades on a per-trade basis will further hinder it. For these reasons, SIFMA members believe $100,000 is a more appropriate threshold for the dissemination of trade-by-trade information.

5. Aggregate Report Thresholds should be Higher

SIFMA members believe the threshold number of transactions for a CUSIP to appear in a weekly or monthly report should be increased from five transactions to twenty transactions. Liquidity in the securitized products markets will be least impacted by price dissemination if only truly actively traded CUSIPs are captured in the weekly and monthly reports. When considering threshold numbers of transactions, it is important to recognize is that one trade can often lead to many related trades in a very short amount of time, but this does not necessarily signify that a product is widely traded. For example, a client could sell a bond to a dealer who is bidding on behalf of a client. That results in two trades that are related to a single transaction. Indeed, any trade where a dealer is acting as an agent or riskless principal will necessarily involve two trades. Similarly, if to fill a customer order a dealer needs to source a bond from another dealer, that will involve a minimum of two trades, and could involve three or more (if the other dealer sources the bond from a customer or another dealer). While these situations may involve two or more discrete trades, if they are executed in the same day they really are one linked transaction.[3] To further illustrate this point, if (A) Investor A sells $20,000,000 of CUSIP XYZ to Broker Dealer, and (B) Broker Dealer then resells the same position to Investors B, C, D and E in four $5,000,000 lots over a period of days (which would be common), then each of the "buys" and "sells" would be disseminated but the dealer is risk managing a single sale transaction. Our members believe that too granular of trade level reporting is likely to have a negative impact on liquidity, without providing materially improved market transparency.

SIFMA members also believe that the transaction threshold should not be reduced from five transactions to four transactions at the end of the 18 month pilot period, for the same reasons mentioned above.

SIFMA also requests that last price and last trade date be excluded from the weekly report. Knowing last price and last trade date could allow for the ability to reverse engineer which firms placed which trades thereby providing a competitive advantage to those firms that are able accurately predict how a firm might trade a certain product. Price discovery can still be attained through the omission of last price while at the same time allowing firms to retain some anonymity and mask trading strategies. For example, the inclusion of average price in the aggregate report would allow for price discovery while also masking most trading strategies. As has been seen with other fixed income products, liquidity tends to suffer once trading strategies can be potentially exposed.

6. Dissemination of "Primary" CMO Trades should be Aligned with other TRACE-Eligible Products

We understand that FINRA does not intend to require reporting firms to designate CMO transactions as either primary or secondary with P1/S1 indicators as is done for corporate bond and agency debt transactions, and as we understand will be the policy for asset-backed securities ("ABS"). Based on our understanding, all CMO trades will be disseminated (subject to other provisions in the proposed rule related to dissemination size caps and aggregate reports). SIFMA members believe the dissemination of CMO trades should mirror the current practice for corporate bonds, agency debt and the planned practice for ABS -- in that only secondary trades be subject to dissemination.

SIFMA members believe that a CMO trade should be considered primary if the transaction is executed pre-first-settlement as well as in instances where a dealer has retained an entire CUSIP and sells it into the market for the first time post-first-settlement date for the issuance. For example, if a CMO has six tranches and five tranches are traded pre-settlement of the deal and the sixth is not sold until post-settlement, for reasons such as lack of liquidity in the market, then all those transactions should be considered primary transactions and not be subject to dissemination.

7. Change to Reporting Time for Pre-Issuance CMO Transactions is Positive

SIFMA engaged FINRA in the past and requested that new issue CMO reporting time be changed since some small and mid-size firms lack the head count and resources to actively monitor all CMO data feeds and in turn might not know if a CUSIP has been issued. SIFMA members welcome the move to revise the reporting time of new issue CMOs and strongly support its implementation.

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[3] Accordingly, transactions which are subject to FINRA's proposed rules on matched trades should not count as multiple trades for the purposes of TRACE dissemination.

8. Implementation Date Considerations

We believe one year is an adequate amount of time for firms to prepare for implementation of the proposed changes. We also recommend FINRA publish any technical specifications regarding the proposed changes as far in advance as possible, and further in advance than technical specifications were published for ABS dissemination.

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Please contact Chris Killian (ckillian@sifma.org) or Joe Cox (jcox@sifma.org) with any questions or for more information. Thank you for your consideration of our comments.

Regards,

Christopher B. Killian
Managing Director
Securitization