



July 27, 2016

Submitted Via Email to rule-comments@sec.gov

Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street NE., Washington, DC 20549-1090

Re: ***(Release NO. 34-78196; File No. SR-FINRA-2016-023) Notice of Filing of a Proposed Rule Change to Increase Transparency for CMO Transactions***

Dear Mr. Fields,

The Securities Industry and Financial Markets Association (“SIFMA”¹) is pleased to respond to the SEC’s request for comment on FINRA’s proposed rule (the “Proposal”) to begin dissemination of data for transactions in collateralized mortgage obligations (“CMOs”).²

1. Summary of SIFMA Views

We appreciate that FINRA has made some changes to the Proposal that align with our previously submitted [comment letter](#).³ However, we do not believe the amendments to the Proposal go far enough to protect the liquidity of the CMO market. In this letter, we request that FINRA (1) decrease the real-time dissemination cap from \$1,000,000 to \$500,000; (2) adjust the MPID activity count threshold for new issue CMOs; (3) clarify which CMBS products are in scope; and (4) implement a pilot program such that CMOs must be reported within 120 minutes for the first six months and then 60 minutes after six months. We also indicate our support for other aspects of the proposal.

2. Dissemination Caps should be Lowered from \$1,000,000 to \$500,000

SIFMA previously requested that the dissemination threshold be lowered to a point that better reflected true retail activity. This suggestion is not reflected in the Proposal. SIFMA members continue to believe the dissemination threshold should be lowered to ensure only truly retail-sized transactions are subject to real-time dissemination. As we noted in our previous letter, *“our members recognize the benefits to the market of greater price transparency, but at the same time recent experience with TBAs, specified pools, and other types of securities illustrate the detrimental impact overly broad TRACE dissemination can have, particularly with respect to the ability for market participants to easily transact in size. In a market, such as CMOs, where the securities are even less liquid and more unique, liquidity concerns are heightened.”* We reiterate these concerns, and again request that

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 81 FR 44065 (July 2016), available here: <https://federalregister.gov/a/2016-15918>

³ Available here: <https://www.sifma.org/comment-letters/2015/sifma-submits-comments-to-finra-regarding-regulatory-notice-15-04/>



FINRA review the threshold for real time dissemination. We suggest that the level should be no higher than \$500,000.

3. The MPID Activity Threshold Should Be Adjusted for New-Issue CMO Transactions

The Proposal states that to appear on a periodic report, CMO transactions must meet a minimum activity threshold of at least five transactions in the period, and those transactions must be reported by at least two different MPIDs. It is a positive change that the two MPID requirement was added to the Proposal. However, we believe the activity threshold would likely be met by most if not all new issue CMO transactions. In a typical CMO, the lead dealer will sell portions of the issuance to other dealers who assist in the distribution. If the lead dealer sold to two other dealers, which is common, and each dealer sold to one client, which is common, the CMO would have 6 trades reported by 3 MPIDs. We do not believe this is FINRA's intended result – that almost all new issue trades would be disseminated.

We believe that these trades, as a group, should be considered part of the initial distribution and do not necessarily signify that a product is widely traded in secondary markets. SIFMA members recommend a higher activity threshold for new issue CMOs, such as ten transactions instead of five, to ensure that true secondary market transaction activity is the primary determinant for whether or not transaction information is disseminated. This would require definition of a time period to define the "initial distribution". We suggest that this time frame should include all trades done prior to the first settlement date.

Accordingly, the thresholds for CMOs would be:

- (a) for new issue – 10 trades/2MPID for trades prior to first settlement, and
- (b) secondary – as proposed, 5 trades/2MPIDs.

We understand from our members that multiple trades in the same CUSIP are commonly executed dealer to dealer in a new issue CMO distribution. While FINRA indicates that dealer to dealer trades will count as one trade, not two (this is helpful), we believe that the splitting up of trades into multiple lots will overstate the amount of activity in a particular CUSIP. Accordingly, we believe that dealer to dealer trades done in the same CUSIP in the time of the initial distribution should be considered a single trade for the purposes of weekly and monthly reports.

For example, Dealer A sells to Dealer B, who then sells to three customers. Often, instead of booking one larger trade from Dealer A to Dealer B, three separate smaller trades will be booked for administrative or other reasons. This example would result in 6 "trades" under the proposed regime. We believe it should represent 4 "trades", through the aggregation of the dealer to dealer trades.

4. The Definition of CMO Is Unclear, Because Some (But Not All) Products Considered by the Market to be CMBS are within the Scope of the CMO Proposal. All CMBS Should Be Outside of the Scope of this Proposal

The Proposal discusses how this rulemaking is intended to apply to CMOs, but not CMBS or CDOs, and differentiates CMOs from CMBS and CDOs.⁴ We agree with the Proposal's apparent intended exclusion of CMBS and CDOs. However, FINRA Rule 6710(dd) defines CMO to include Ginnie Mae Project Loans.⁵ Ginnie Mae project loan securities are considered Agency CMBS by market participants. Since the rule proposal implies that CMBS

⁴ See, e.g., Proposal at 44066. We note that rule 6710 does not define CMBS or CDO, but does exclude them from the definition of Asset-Backed Security, and include them within the definition of Securitized Product.

⁵ See footnote 3 of the Proposal: <https://www.gpo.gov/fdsys/pkg/FR-2016-07-06/pdf/2016-15918.pdf>



products are outside the scope of this rule making, SIFMA members believe that project loan securities, as CMBS, should also be out of scope and the definition of CMO should be adjusted to reflect this. In any case, FINRA must explicitly clarify the boundaries of the definition of CMO so that dealers are able to comply with the rule.

5. The Reduction in CMO Reporting Time Should Follow a Phased-In Approach

We recognize FINRA's statement that the average reporting time for CMO transactions is shorter than 60 minutes at this time. Indeed, many of our members currently report CMO trades in far fewer than 60 minutes. However, this is not always the case. We believe the reduction in reporting time for transactions in CMOs executed on or after issuance should follow the approach used for other product types through introduction of a pilot program where reporting deadlines would be shortened in steps. We suggest a 6-month pilot period. Shorter timeframes for asset-backed securities (ABS) were implemented by first reducing the reporting time to forty-five minutes for six months and then fifteen minutes.⁶ SIFMA members believe FINRA should implement a similar structure for CMOs such that reporting times for CMOs are reduced to one hundred twenty minutes for six months and then sixty minutes. This would help ensure that dealers are able to implement necessary systems changes and avoid errors.

6. The Change to Reporting Time for Pre-Issuance CMO Transactions is Appropriate and Necessary

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

7. The 1-Year Implementation Timeframe is Reasonable

We believe one year is an adequate amount of time for firms to prepare for implementation of the proposed changes, but less than one year may be too brief. 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.

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,

Chris Killian
Managing Director
Securitization

⁶ TRACE ABS Dissemination and Related Reporting and Data Feed Changes, available here: <https://www.finra.org/industry/trace/revised-date-%E2%80%93-trace-abs-dissemination-and-related-reporting-and-data-feed-changes>