December 22, 2011

Submitted Via Email to Rule-Comments@SEC.gov

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street NE., Washington, DC 20549–1090

Re: Release No. 34–65877; File No. SR–FINRA–2011–069 / Notice of Filing of Proposed Rule Change Relating To Post-Trade Transparency for Agency Pass-Through Mortgage-Backed Securities Traded TBA

Ladies and Gentlemen,

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 Agency mortgage-backed securities ("**MBS**") traded on a to-be-announced ("**TBA**") basis[2]. SIFMA's comments on this proposal are narrowly tailored and focused on two aspects of the proposal. The first area is the cap on disseminated volume, and the second regards certain implementation considerations for the rule proposal. The root of the majority of the issues discussed in this letter is a mistaken characterization of TBA trading corresponding to a unitary TBA market. In reality, there are a number of MBS markets where securities are traded TBA, each with different liquidity and operational realities that should be reflected in the TRACE reporting regime.

Summary of the Proposal

The Proposal would implement shorter reporting timeframes for TBA transactions (45min, then 15min), as well as real-time dissemination of trade information. Volume information would be capped at $50MM. Trades above that amount would be displayed as "50+". We understand that FINRA intends that all products reported under a generic TBA CUSIP would be subject to this accelerated reporting and dissemination. The proposal would also implement changes regarding dissemination and data fees and other minor issues.

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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] 76 FR 236 (December 8, 2011) pp. 76777-76781.

Summary of SIFMA Views

- FINRA should institute volume caps for each TBA CUSIP that are more reflective of the liquidity of the various markets that utilize TBA trading techniques.
- Certain less liquid products that trade on a TBA basis do not lend themselves to accelerated reporting and should not be subject to such requirements at this time.
- The effective date of the proposed rules as they relate to changes to reporting requirements should be no earlier than August 1, 2012.

Dissemination of TBA MBS Trade Volume Information

- ***Sensitivity of Volume Information, and the Importance of TBA Market Liquidity***

The TBA market is an institutional market, where the major participants (money managers, foreign central banks and sovereign funds, bank portfolios, mortgage originators, and market makers) are attracted to the market in large measure because of, and depend on, its liquidity and the ability it creates for them to transact quickly, anonymously and in large volumes without unduly impacting market pricing. Furthermore, these participants in TBA trading highly value their ability to keep their strategies and activities confidential for competitive and other reasons. Knowledge of specific sizes of trades – i.e. position transparency -- is therefore very sensitive information, as is the ability to reverse engineer net flows to/from customers or market makers.

This sensitivity is not unique to TBA MBS – it exists in all OTC markets. However given the hugely important role the TBA market plays in today's housing market, it is of utmost importance. The Agencies, through the MBS they issue or guarantee, fund over 90% of the mortgage lending in the U.S. We cannot overstate the downside risk of disruptions to liquidity in the TBA market, and the direct impact such an unfortunate event would have on the cost of mortgage credit to consumers.[3]

FINRA has previously recognized the sensitivity of volume information through their implementation of dissemination caps for corporate and agency trade data, and through their proposal to implement similar caps for TBAs. However SIFMA members, both dealers and investors, believe that the proposed arrangement for TBAs is too broad and treats distinct TBA markets as a monolithic whole.

- ***There is no Single TBA Market – It is a Trading Practice Applied to Many Markets***

What is commonly referred to as 'the' TBA market is actually a collection of distinct trading markets for distinct products. They share a common trading practice (i.e., TBA), but the dynamics of each market differ materially, especially with respect to liquidity. The greatest liquidity is found in the "on the run" sector, which generally speaking involves coupon/issuer/maturity combinations closest to the currently-originated fixed-rate mortgage product – these areas are where MBS to deliver into TBA trades are produced in the greatest volumes, promoting liquidity. There are a number of other distinct markets such as TBA markets for adjustable rate mortgages ("**ARMs**"), 40-year maturity mortgage pools, and project loans, among others, where issuance of MBS is orders of magnitude lower, and consequently liquidity is orders of magnitude lower. It follows that FINRA should institute volume caps for each TBA CUSIP that are more reflective of the liquidity of the various markets that feature TBA trading.

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[3] For a more in-depth discussion of the TBA markets, please see pages 4-20 of this document: http://www.sifma.org/issues/item.aspx?id=8589935933.

- ***Volume Caps Should be Tailored to Distinct Markets***

FINRA implemented corporate bond dissemination thresholds according to the nature of the market ($1MM for high yield, $5MM for investment grade) and should likewise more carefully tailor the caps for TBAs. SIFMA strongly believes that FINRA should implement volume dissemination caps by TBA CUSIP that are tailored to the liquidity characteristics of the TBA CUSIP. In each case, FINRA should review the data it has received since May 2011 and set caps according to the liquidity of each TBA CUSIP that will be subject to dissemination. FINRA cites percentages of disseminated trades that would have their volume capped under this proposal.[4] However (even though we do not have access to the data which FINRA cites) we believe that the gross percentages are skewed by the extremely high volume of trading in the "on the run" TBA sectors, and are not reflective of the reality of much lower liquidity in the "off the run" TBA sectors, such as high coupons, ARMS, project loans, and other small volume programs. In other words, when viewed at a more granular level, we expect the $50MM cap would not have the same impact it would appear to have when a multitude of distinct markets are inappropriately viewed as a whole.

  - ***Specific Recommendations or Volume Caps:***

As a general matter, SIFMA members believe the $50MM cap is too high, and may distort trading and liquidity in even the most liquid TBA markets, with the consequence of higher mortgage rates for consumers. For the most liquid, standard 30-year, good-delivery fixed rate products, we recommend a maximum cap of $25MM.

Caps for 15yr good-delivery eligible should be lower than those for 30yr good-delivery eligible MBS, reflecting the lower liquidity of that market. SIFMA recommends a cap of $10MM for 15year product, based on the smaller size of that market and lower liquidity.

For other products traded TBA, such as high coupon fixed-rate pools, ARMs, project loans, and jumbo loans, reverse mortgage pools, DUS and project loans, liquidity is far lower than for traditional good-delivery product and closer to the liquidity of corporate or agency markets, and therefore volume caps should similarly be at those levels, in a range of $1-$5MM.[5]

In sum, the proposed approach of a flat $50MM volume cap for all products traded TBA is overly broad, potentially harmful to liquidity and therefore consumers, and should be re-examined.

Operational Considerations for Implementation

- ***Certain Non-Standard TBA Products Present Critical Challenges and Should Not Be Subject to Accelerated Reporting at this Time***

As discussed above, what is referred to as the TBA market in this Proposal does not correspond to a single, uniform market. Instead, there are a number of markets which utilize a TBA trading practice. For certain of these markets, including ARMs, project loans, and reverse mortgage (HECM) MBS, SIFMA members have determined that meeting the proposed accelerated reporting

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[4] Proposal at 15.

[5] We also note that because there is a one-to-many relationship between many traded products and the TBA CUSIPs they are reported under, users may become confused or mislead by a literal review of the dissemination feed. There may be a very large dispersion in prices between, for example, two ARM trades that roll up into the same TBA CUSIP, but where the pools have different margins, reset periods or coupons, for example. This is also true where any number of TBA stipulations may have significant, and different, impact on pricing, but all of the trades are simply reported as the same generic TBA with a stipulation indicator.

timeframes would not be possible absent a cumbersome, and potentially risky, manual trade reporting process. The reason for this lies with the nature of the trading itself and TRACE reporting regime for these securities.

We will use an ARM pool as an example but the principles of this discussion also apply to project loan/DUS pool trades and HECM trades. The information conveyed in the generic ARM identifier (i.e., TBA CUSIP) for a TRACE report is as follows: issuer, product type, coupon (rounded to ¼% increments), maturity and settlement month. This information is less granular than that which would uniquely identify the security. For example, caps, resets, and exact coupons are also relevant to the pricing of an ARM trade. As we understand from our members, the TBA CUSIP (reported to TRACE) is typically derived from the totality of the granular information about the trade (all of which is not reported to TRACE). In other words, firms work from the more granular information to the less granular information, and TRACE reports are sent at the end of this process.

This creates a conundrum for accelerated reporting of these trades. Given the flow from more granular to less granular to derive the TRACE-reportable TBA CUSIP, each TRACE report essentially requires all information for the trade to be set up on an internal system so that the TBA CUSIP may be derived. This is similar to a new security set up, and it takes some amount of time to obtain all of the granular information needed for such set up, and to actually set up the security (generally longer than 15 minutes in any case). Many different securities are traded under the same TBA CUSIP – different collateral structures, different coupons, margins, reset dates, etc. A given ARM, HECM, project loan or DUS security will likely differ on a number of data points from another ARM, HECM, project loan or DUS security, unlike a 40-year pool or specified pool, each of which will likely have many similar securities but for the specific CUSIP.

The only way a firm would be able to report a trade in an ARM or similar security before the trade information was loaded and the security had been set up internally would be for the firm to have a manual process to derive the TBA CUSIP and report the trade to TRACE outside of its traditional TRACE reporting workflow. Such a manual process raises a host of compliance, audit, and workflow related concerns, all of which are negative to the firm, to FINRA, and to the market more generally given the potential for errors. SIFMA members believe that TRACE reporting should be to every extent possible a straight-through processing ("**STP**") event, so that disseminated data is accurate and complete.

For these reasons, SIFMA members strongly request that trades of ARM, project loan/DUS, and HECM pools should remain end-of-day reporting events, at least for the time being. The alternative is for a risky manual process to occur, or for all trades to be late. We recognize, however, that FINRA may desire to reduce reporting timeframes more generally, and plan to work with our members to determine if changes can be made to the current identification system for these types of trades that would allow for a more STP and timely reporting regime. However, this will take some time.

- ***Effective Date***

SIFMA members have considered the necessary changes to their internal systems, policies, and procedures and request that the effective date of this change to TRACE reporting requirements be no earlier than August 1, 2012.

For some participants, the system changes to implement 45 minute reporting may be significant. The spring of 2012 is already quite full of initiatives, regulatory and otherwise, that are likely to require significant information technology resources, including but not limited to the MPP conversion for corporate and agency debt TRACE reporting, and the implementation of the Treasury Market Practices Group Fail Charge. Additionally, the implementation of changes to front-office procedures may be required in some instances, particularly with respect to off-the-run TBA products, to insure timely reporting at the 45 minute level, and especially at the 15 minute level.

Conclusion

SIFMA appreciates the opportunity to comment on this rule proposal and hopes our comments are helpful. We would be pleased to discuss any questions or comments. Please contact Chris Killian at 212-313-1126 or ckillian@sifma.org with any questions or comments.

Sincerely,

Chris Killian
Managing Director, Securitization