



June 7, 2022

Submitted electronically to: [rule-comments@sec.gov](mailto:rule-comments@sec.gov)

Ms. Vanessa Countryman  
Secretary, Securities and Exchange Commission  
100 F St., NE  
Washington, DC 20549

**Re: File Number SR-FINRA-2022-011: TRACE Reporting for USD Sovereigns**

Dear Ms. Countryman,

SIFMA<sup>1</sup> is pleased to respond to File Number SR-2022-011 regarding FINRA's proposed TRACE reporting requirements for U.S. dollar denominated foreign sovereign and supranational securities (hereafter, "Proposal").<sup>2</sup> SIFMA members are active participants in fixed-income markets covered by the Proposal.

#### **A. Summary of the Proposal**

The proposal would generally require FINRA-member broker-dealers to report USD foreign sovereign and supranational (referred to in this letter as "SSA") trades to the TRACE system on a same-day basis. FINRA would not disseminate these reports. We submitted comments to FINRA on a related Regulatory Notice in 2019 and our comments today are fairly similar.<sup>3</sup>

#### **B. Comments on Reporting of Transactions**

##### **1. International Nature of Sovereign Trading**

SIFMA members understand FINRA's desire for regulatory reporting of transactions in these securities for the purposes of its supervisory activities, however, we believe it is important to recognize that FINRA will not receive comprehensive information regarding SSA trading. In contrast to most other TRACE-eligible markets, a significant amount of trading in SSA debt does not occur at FINRA-member broker dealers, instead occurring in off-shore transactions executed by non-US entities. Accordingly, FINRA will not get the full picture of market activity, which should be kept in mind as FINRA analyzes data and supervises its member broker-dealers.

---

<sup>1</sup> SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's one million employees, we advocate on legislation, regulation and business policy affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA).

<sup>2</sup> 87 FR 29980, available here: <https://www.federalregister.gov/documents/2022/05/17/2022-10508/self-regulatory-organizations-financial-industry-regulatory-authority-inc-notice-of-filing-of-a>

<sup>3</sup> Letter from SIFMA to FINRA (September 24, 2019), available here: [https://www.finra.org/sites/default/files/2019-09/19-25\\_SIFMA\\_Comment.pdf](https://www.finra.org/sites/default/files/2019-09/19-25_SIFMA_Comment.pdf). ("SIFMA 2019 Letter")

## 2. Security Identifiers

As we discussed in our response to FINRA's Regulatory Notice that preceded this proposal, the lack of CUSIP numbers presents a general operational challenge for members trading SSA debt. Based on feedback from our members, we believe FINRA-member broker-dealers will fairly commonly encounter situations where they trade a bond that is not yet set up in TRACE, and also does not have a CUSIP or CINS number. The necessary next step in these situations is to call FINRA to obtain a symbol. Obtaining a FINRA identifier where a CUSIP is not used, while a solution, is neither efficient nor automatable.

We suggested in our 2019 response to FINRA that a partial solution is for FINRA to allow for the submission of ISINs, which may be broadly available when a CUSIP is not. In this proposal, FINRA indicates that "where a CUSIP or CINS is not available...the FINRA-assigned symbol would be associated with the ISIN" This is helpful for a dealer trading a previously set up security who could link an ISIN to a FINRA symbol in the master file when a CUSIP is not available.

That being said, the linkage of a FINRA symbol to an ISIN does not solve the problem for broker-dealers with a same-day reporting requirement for securities not set up with FINRA.<sup>4</sup> Our members believe that the majority of the SSA ISINs initially settle with foreign depositories, and the book-runner may have an ISIN but will not always initiate the request for the CUSIP/CINS number (which is needed for setting up the security on FINRA's portal) in time to have it available for TRACE reporting on the day it is traded by a US broker-dealer. To address this situation, FINRA should expand their new issue portals to accept ISINs in lieu of CINS or CUSIPS before this proposal is implemented.

Additionally, sometimes the US-based dealers do not receive an ISIN on the first day of trading (or for trades that occur before pricing and settlement). Our members note that many SSA issuances are done in Europe or Asia for foreign clients with no U.S. dealer nexus, and they have no obligation for TRACE compliance. Dealers would then have to obtain a FINRA symbol, which is a manual and time-consuming process. Furthermore, some firms have reported that while they may be able to set up a FINRA symbol, their internal (or vendor) systems are not able to report trades with only a FINRA symbol. In any case, obtaining a FINRA symbol is a manual and time consuming process, and is not scalable. Given our expectation that there will be more of this manual processing needed, FINRA should consider and discuss with dealers how this process may be made more efficient.

SIFMA members believe the optimal solution is to permit all transactions in SSA securities to be reported on a T+1 basis. Given that this reporting is regulatory in nature, FINRA will still receive all of the trading information that it needs in very close proximity to time of trade. This approach would also relieve the manual burden on dealer staff and FINRA staff by allowing for more time to obtain symbols, if needed. This adjustment to reporting timelines would provide the opportunity for a dealer to receive a CUSIP or CINS in some cases, relieving the burden of obtaining a FINRA symbol. If FINRA is not willing to implement a T+1 reporting requirement for SSAs across the board, FINRA should at a minimum allow T+1 reporting for securities that dealers need to manually set up on TRACE with a FINRA symbol.

---

<sup>4</sup> SIFMA members presume that the P1 designator will be available for new issues, which would create a T+1 requirement for those securities.

### 3. Scope

FINRA should provide further explanation of the meaning of certain terms used in the proposal to ensure that dealers will utilize the correct protocols for reporting particular transactions as SSA vs. corporate bonds (e.g., 15 minutes vs. end of day, trade flags, etc...).

*“Supranational Entity”* – The Proposal notes that this term would *“include multi-national organizations such as the International Bank for Reconstruction & Development (World Bank), the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the International Finance Corporation, and the European Investment Bank.”* However the Proposal does not include a guiding principle or broader definition as to which other entities may be considered supranational entities. The economic analysis section of the Proposal indicates that two of the top 5 supranational issuers are not on this list. It would be helpful to dealers if FINRA either defined an exclusive list of supranational entities that should be reported under the SSA rubric, or at least supply a broader definition to help dealers identify which entities should be reported as sovereign/supranational securities, to avoid any confusion in the future.

*“Guaranteed by”* – FINRA should define what constitutes a guarantee. To analogize to the U.S., Fannie Mae and Freddie Mac are not explicitly guaranteed but their securities issuances receive many of the same legal exceptions as explicitly guaranteed securities (e.g., they are exempt securities, are considered government securities) and the entities have a financial backstop from the government. It is not clear if a similar foreign issuer’s securities entity would be considered guaranteed, and FINRA should clarify the meaning of this term.

*“Any political subdivision of a foreign country”* – The Proposal includes in the SSA category USD debt securities guaranteed by political subdivisions, but the definition of this term is limited to a “for example” list that includes “state, provincial, or municipal governments”. As above, limitations and clarity on the definition would be useful to dealers to ensure transactions are reported with the correct protocols.

Clarity is important on these points because there are different reporting frameworks for private foreign issuers and SSAs. Today, the determination of whether a bond is a sovereign bond depends on whether the issuer is “eligible” to file a Schedule B. In instances where a dealer trades an SSA bond that is not on the TRACE master file it can be difficult to determine the Schedule B eligibility of the issuer, and we are not aware of a data source dealers may consult for Schedule B eligibility status. Accordingly, dealers and FINRA will benefit from the maximum clarity FINRA can provide regarding which entities are SSAs.

### 4. Implementation Timeline and Logistics

After discussion with members, and considering our previous request for a 12-18 month implementation timeline, our members believe 15 months would be appropriate. Additionally, FINRA should provide guidance as to how previously issued SSA debt will be set up in TRACE/added to the master file.

## 5. Reporting Protocol

There are currently three sets of FIX specifications for reporting trades: Treasury Securities; Corporates, Agency Debt, 144A Debt; and Securitized Products. FINRA should clarify which specification will be used, or if a new specification will be published for SSAs.

### C. Considerations with Respect to Potential Public Dissemination

While the Proposal only contemplates reporting to TRACE, not dissemination, our members have continued to consider that another rulemaking could be proposed in the future to begin public dissemination. We discussed this at length in our 2019 letter to FINRA, and will reiterate the discussion here in an abbreviated form.<sup>5</sup> We believe there are several potentially significant complications and consequences regarding dissemination of SSA transactions in anything approaching a real-time nature, and do not believe the benefits outweigh the risks.

FINRA's states that it *"will take a measured approach to potential dissemination, as it has taken historically with other TRACE-Eligible Securities and would first analyze the regulatory data to determine the appropriate contours of a potential dissemination framework."*<sup>6</sup> If FINRA desires to go in this direction for SSA securities at some point in the future, we believe this requires a very careful approach that involves not only the U.S. based buyers and sellers of the bonds but also the sovereign issuers, governments, and regulators who would be impacted by changes in their securities markets.

We believe that, as we have seen in other markets, there is a likelihood that public dissemination could impair liquidity in these markets. Trading in SSAs is distributed internationally, with TRACE-reportable U.S. broker-dealer activity making up only a portion of global activity in these securities. An analysis of the impact of public dissemination should include a review of whether such an incomplete dataset being disseminated could have competitive effects. Given the limited size of many of these markets, our members are concerned that it would be unlikely that transaction counterparties could remain anonymous, and given the desire for anonymity among dealers' counterparties, an unintended consequence could be that some portion of USD SSA trading shifts offshore to foreign counterparties.

The most important aspect of SSA bonds that distinguishes them from asset classes that currently have real-time dissemination is that instead of, e.g., a corporate entity issuing securities to fund its business, the issuer is a country or political subdivision issuing securities to support its fiscal policy, domestic agenda, or other social programs. SSA markets are very different from, e.g., US IG or HY markets. To the extent that regulatory changes here in the U.S. impair the execution, secondary pricing, or liquidity of an issuer's securities, the effects could be felt by the country itself through an impact on its fiscal policy or other programs.

Additionally, USD sovereign markets are not homogeneous. Larger issuers and their securities markets can be very different from smaller issuers and their markets. Even within the 5 largest issuers identified in the proposal (Argentina, Saudi Arabia, the UAE, Egypt, and Austria) there are different economic situations driving different outcomes for related securities markets.<sup>7</sup> In addition, some foreign jurisdictions have existing regulatory reporting and transparency requirements in place. FINRA should consider different approaches for different sectors.

---

<sup>5</sup> See SIFMA 2019 Letter, at 3-5

<sup>6</sup> Proposal at 29981.

<sup>7</sup> Proposal at 29983.

\*\*\*

We appreciate this opportunity to provide input to the SEC on this important rulemaking. We would welcome further opportunities to discuss our comments, at your convenience. I can be reached at 212-313-1126 or [ckillian@sifma.org](mailto:ckillian@sifma.org).

Regards,

A handwritten signature in blue ink that reads "Chris Killian". The signature is fluid and cursive, with the first name "Chris" and last name "Killian" clearly legible.

Christopher B. Killian  
Managing Director  
Securitization and Corporate Credit