



SUBMITTED ELECTRONICALLY

February 15, 2024

Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: File Number SR-MSRB-2024-01; Release No. 34-99402; Notice of Filing of a Proposed Rule Change to Amend MSRB Rule G-14 to Shorten the Timeframe for Reporting Trades in Municipal Securities to the MSRB.

File Number SR-FINRA-2024-04; Release No. 34-99404; Notice of Filing of a Proposed Rule Change to Amend FINRA Rule 6730 (Transaction Reporting) to Reduce the 15-Minute TRACE Reporting Timeframe to One Minute.

Dear Ms. Countryman,

The Securities Industry and Financial Markets Association,¹ jointly with its Asset Management Group² (collectively, “SIFMA”), appreciates this opportunity to comment on SR-MSRB-2024-01 (the “MSRB Proposal”) filed with the SEC by the Municipal Securities Rulemaking Board (the “MSRB”) and SR-FINRA-2024-04 (the “FINRA Proposal” and together with the MSRB Proposal, the “Proposals”) filed with the SEC by the Financial Industry Regulatory Authority (“FINRA” and, together with the MSRB, the “SROs”).

¹ 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 nearly 1 million employees, we advocate for 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).

² SIFMA’s Asset Management Group (SIFMA AMG) brings the asset management community together to provide views on U.S. and global policy and to create industry best practices. SIFMA AMG’s members represent U.S. and global asset management firms whose combined assets under management exceed \$45 trillion. The clients of SIFMA AMG member firms include, among others, tens of millions of individual investors, registered investment companies, endowments, public and private pension funds, UCITS and private funds such as hedge funds and private equity funds. For more information, visit <http://www.sifma.org/amg>.

The Proposals include a request for comment on shortening the trade reporting timeframe for transactions in covered fixed income securities required to be reported to each of the SRO's respective trade reporting system. The Real-Time Transaction Reporting System ("RTRS") is the system operated by the MSRB for the reporting of trades in most municipal securities,³ and the Trade Reporting and Compliance Engine ("TRACE" and, together with RTRS, the "Reporting Systems") is the system operated by FINRA for the reporting of trades in most dollar-denominated debt securities of corporate issuers, federal agencies, government-sponsored enterprises and the U.S. Treasury (collectively, "TRACE-Eligible Securities").⁴ Except where otherwise specifically provided, our comments in this letter apply to both Proposals and with respect to both Reporting Systems.

I. Executive Summary

Improvements to transparency in fixed-income markets should be implemented thoughtfully so as to enhance transparency to market participants while balancing costs and preserving smooth market function. We believe the current transparency framework achieves timely reporting and strikes an appropriate balance between benefits to market participants against associated burdens. The proposed transition to one-minute reporting has neither been adequately examined or justified, nor do we believe that the proposed one-minute reporting rule can be adopted without exposing the broker-dealer community to significant liability and creating risk to the function of some fixed income markets. Nonetheless, we provide our comments in the context of this proposal that would implement a one-minute requirement for many markets.

Fundamentally, subjecting the fixed income market to trade reporting requirements that appear to be inspired by the equities markets is misguided. The fixed income markets, including the municipal securities market, are not the equity market, and over-the-counter execution, where elements of trading and post-execution processing rely on manual processes, or are subject to still developing and non-comprehensive automation, remains common. We do not believe an across-the-board one-minute reporting requirement is feasible due to the lack of full post-trade automation stemming from the importance of bilateral negotiation in many fixed income markets. SIFMA believes a robust manual trade exemption, as well as a de minimis exemption to protect smaller dealer members, would be required if the Proposals move forward. The manual trade exemption as proposed, however, is not a panacea, and further, as we note, even one minute reporting for certain fully-electronic trades remains unworkable.

³ Reporting of trades in municipal securities to RTRS is governed by MSRB Rule G-14, on Reports of Sales or Purchases.

⁴ TRACE-Eligible Securities are defined in, and the reporting of trades in TRACE-Eligible Securities to TRACE is governed by, the FINRA Rule 6700 Series, on Trade Reporting and Compliance Engine (TRACE).

In sum, we believe FINRA and MSRB should reconsider if a 1-minute trade reporting requirement is appropriate for fixed income markets, and if a decision is made to proceed with this proposal, they should:

- Implement a broad exemption for manual trades;
- Provide relief for certain electronic trades where system processing limitations prevent one-minute reporting, including allocation trades;
- Examine impacts to liquidity, depth, concentration, and transparency prior to stepping reporting times to shorter intervals to ensure markets are not harmed by shorter trade reporting timeframes; and
- Implement the proposed de-minimis exemption.

We discuss these views in more detail below.

II. **Discussion:**

A. *A Manual Trade Exception Is Necessary If One-Minute reporting Is Implemented*

1. Transactions should be reported as soon as practicable, but this does not mean one-size-fits-all approaches to transparency are appropriate.

Currently, TRACE and RTRS reporting systems are good for the market and strike an appropriate balance between the benefits to institutional and retail investors against their associated burdens. Transparency in price, size and time can lead to lower costs for investors if implemented appropriately, however, transparency also carries risks to liquidity providers and participants in larger trades, which is a reality the current rules reflect. For example, FINRA and MSRB bifurcate some reporting and dissemination protocols by trade size. The fixed income securities markets are diverse, granular (as evidenced by the millions of distinct fixed income CUSIPs), have vastly differing degrees of automation and liquidity, and for these reasons remain largely over-the-counter. While automation and the use of trading platforms has increased over time, it is concentrated in certain markets, and significant amounts of trading activity take place through voice and quasi-voice communications.

Accordingly, we do not agree with the premise that all trades should be reported in one minute, and instead believe that reporting requirements should reflect the nature of the liquidity of the various underlying fixed income markets. To this point, the SROs have developed targeted reporting and dissemination regimes for different markets: standards for investment grade corporates differ from high yield instruments, which differ from collateralized loan obligations, which differ from municipal bonds, which differ from good-delivery TBA mortgage-backed securities, and so on. These tailored standards for trade reporting and dissemination appropriately reflect the differing natures of distinct fixed-income markets. If a general reporting time reduction to one-minute without appropriate and necessary

exceptions and flexibility is adopted for those products which currently have a 15-minute deadline, SIFMA believes that rules must contain appropriate distinctions between markets where trading is more automated and features more straight-through processing (STP), and those that rely more heavily on voice trading and other manual forms of communication. In this context, SIFMA and SIFMA AMG view the proposed manual trade exception as an attempt to accommodate current market structure and technological reality in order to promote the continued liquidity of the subject fixed-income markets.

2. There Are a Variety of Reasons Trades May Require Manual Processing

- a. **Trade is Not Negotiated on a Platform that Enables STP** – Counterparties may use telephone, e-mail, chat or other messaging systems for trade negotiation. After time of execution, the details of the trade then need to be transmitted to other systems for post-trade processing and reporting. For example, a trade may be negotiated over a chat system and then manually keyed into multiple order and risk management systems for processing and reporting. This manual component of many fixed income trades causes a one-minute time limit to be unworkable, particularly if the trader is trying to execute multiple orders (such as a list of bonds) or is executing multiple legs of a transaction with a counterparty. As the proposals point out, where trade negotiation involves the use of telephone, e-mail, chat or other messaging system, a delay in reporting beyond one minute may unavoidably occur. SIFMA further points out that while these trades should be subject to later than one-minute reporting, they remain subject to the as soon as practicable requirement and dealers are under a requirement to not unnecessarily delay reporting.
- b. **Post-Trade Allocation to Advised Subaccounts** – Large trades often must be allocated to a counterparty’s subaccounts, which are not always known at the time of trade, and these allocations can number from the dozens to the thousands or more. Where a FINRA member that is dually registered as both a broker-dealer and an investment advisor must manually input these allocations (pursuant to FINRA’s TRACE FAQ item 3.1.47), that manual component may make it impossible for all allocations to be reported in the one-minute period. FINRA notes that only “[f]ive out of 29 reporters that reported allocation trades were able to report 90 percent of their allocation trades within one minute.”⁵ FINRA also notes that seven out of 29 reporters “were able to report 90 percent of their allocation trades within five minutes.”⁶ A one-minute reporting rule is patently unworkable without a manual trade exemption that accounts for trade allocation.

⁵ 89 Fed. Reg. 5034, 5041 (January 25, 2024) (The “FINRA Notice”).

⁶ Id.

- c. **Bond Set Up** – The first time that a member trades a bond, or if the member has not traded that security in a long time, oftentimes necessitates a manual security setup where the details of the security are input into the member’s security master database. Many dealers rely on vendor data to feed their firms' security master files, and vendor setups are also manual processes whereby dealers will only receive updated master file data after the vendor has completed its update. Furthermore, bonds that are new or have not been traded in a significant period of time may not be on the FINRA or MSRB master file and may need to be manually set up with the regulator. The municipal securities market alone has over 1.1 million individual securities, 99% of which do not trade on any given day. SIFMA member experience is that this setup process (either internally or with the relevant regulator, or both) can take longer than 15 minutes. Without an exception to allow for bond set up, the proposed one-minute reporting rule is unworkable without major market data and regulatory structural revision.
- d. **Basket/Portfolio Trades** –Transactions where the reported price results from an aggregation of the prices of underlying securities (such as with reference to an index) may involve a manual component of calculation and information gathering, and require an exemption from the general one-minute reporting rule. Adoption of a rule without a manual trade exception that includes portfolio trades would likely reduce trading of portfolios, which has become increasingly common, as dealers would be unwilling to knowingly violate compliance rules.
- e. **Brokers-Broker Trades** - A manual trade exception is necessary based on the prevalence of brokers-brokers in the municipal securities markets. These transactions involve manual engagement that makes one minute reporting impossible. In the municipal markets, brokers distribute balances from both competitive and negotiated deals and in the bank-qualified sector, brokers are used to liquidate bid lists and fill active bank inquiries. In each instance, there will be post-trade human intervention before the trade can be routed to the RTRS system. Removal of brokers-brokers from the market, which would happen in the absence of a manual exemption, would have far-reaching consequences, for what SIFMA sees as minimal benefits.
- f. **Compliance and Risk Management Review** –A firm’s post-trade risk management or compliance review may take the trade out of the one-minute reporting timeframe. SIFMA members believe that this review process will be and should be as rapid as practicable. We do not believe that firms should engage in less rigorous review and monitoring of trading activity in pursuit of an arbitrarily faster trade reporting timeline, and a manual trade exemption could help promote effective risk management without resulting in extensive compliance violations.

B. The Reduction From 15-Minute Reporting for Manual Trades Should Include an Impact Assessment Prior to Implementation of 5-Minute Reporting Requirements.

The Proposals each provide that for manual trades, the required reporting time will be reduced from 15 minutes in year one, to ten minutes in year two, to five minutes in year three and thereafter. The technology to report all transactions involving a manual component within five minutes does not currently exist and may never exist, given the structure of the market. Because of the evolutionary nature of the process towards faster reporting, the SROs should implement a pause at the ten minute reporting standard to give the industry and the SROs a meaningful opportunity to examine and discuss the results of the shorter reporting time, consider the effects on trading costs, bid/ask spreads, concentration of trading activity, and market liquidity, and then decide on the best pathway to shorter reporting periods. Hard coding two annual five-minute reductions vastly oversimplifies the task at hand.

According to the proposed rule, all trades that have a manual component must be identified with a manual indicator, irrespective of whether they are reported in the first minute or later. MSRB indicated that the purpose of the manual trade indicator is to “allow the MSRB to collect additional data to help it better understand the extent to which the municipal securities market continues to operate manually. Such understanding would assist the MSRB in engaging with market participants regarding impediments to greater use of automation, and help determine the effectiveness and potential impediments to full compliance with the proposed phase-in period, to determine whether adjustments should be made or other next steps should be taken.”⁷

SIFMA believes that a phased approach, such as that proposed by the regulators (with a pause to do an impact assessment), is critical to the effective implementation of the rule. According to MSRB, the step down in timing is provided in order to give the “regulators an opportunity to assess any potential market impact from the gradual reduction in reporting timeframe.”⁸ Additionally, MSRB noted that if “the proposed rule change is approved, the MSRB would be reviewing the available trade reporting information and data arising from implementation of the changes to trade reporting introduced by the proposed rule change, including but not limited to the two exceptions to the one-minute reporting requirement, as well as marketplace developments, feedback from market participants, and examination or enforcement findings from the Commission, FINRA and the other appropriate regulatory agencies. Such monitoring would inform any further potential changes by the MSRB to the trade reporting requirements.”⁹ Similarly, “FINRA also will assess members’ trade reporting in connection with manual trades to determine whether the five-minute

⁷ 89 Fed. Reg. 5384, 5391 (January 26, 2024) (the “MSRB Notice”).

⁸ MSRB Notice at 5390.

⁹ Id.

trade reporting timeframe (to become applicable after two years) is appropriate, and will be prepared to make adjustments, as necessary.”¹⁰

Given these statements, it is clear that the SROs correctly view the pathway to faster reporting as a careful evolution, and SIFMA asks the SEC to consider a retrospective pause at ten minutes to analyze the data collected and determine the exact nature of the impediments to faster reporting of trades with post-execution manual components.

C. Certain Fully Electronic Transactions Will Not Be Feasibly Reported in One Minute and Should Be Excluded from the One-Minute Requirement

A manual trade exemption is absolutely necessary should the SROs proceed, but the proposed rule does not go far enough in allowing for a technological evolution to achieve one-minute reporting. Due to market structure and technology limitations, certain “non-manual” trades as more fully described below cannot be reported in one minute and the final rule should accommodate that reality. Our members believe that, in some cases, no amount of realistically achievable expenditure will ensure that all trades are reported in one minute, given the nature of the market and reporting requirements that are currently in place. In particular, the final rule should afford SROs some flexibility to work with the broker-dealers to achieve faster reporting where current systems do not allow for it.

1. Large Post-Trade Allocations and Portfolio Trades – Some fully automated transactions cannot be reported within one minute of the time of execution because the system processing pipeline is not large enough to complete all required operational, allocation, and trade reporting processes in one minute. SIFMA members report that it is not uncommon to have allocation instructions involving 10-20,000 accounts or more. Similarly, portfolio transactions can have hundreds of components or more. Reflecting this, the proposal notes that “FINRA examined transaction reporting times for trades that were subsequently suballocated across multiple accounts and found that, for allocated trades, 68 percent were reported within one minute, as compared to 84 percent for other trades.”¹¹

Lack of bandwidth is particularly acute due to the reporting rules applicable to dual-registered broker-dealer/investment advisors. Allocations where the reporting party is a joint broker-dealer and investment advisor must be reported as separate transactions pursuant to FINRA’s TRACE FAQ item 3.1.47. Due to the added complexity of a two-stage reporting process (a block trade report, then advisory account allocation reports), combined with extremely large numbers of allocations (such as when a portfolio is rebalanced), there are limits to how many allocations can be processed and reported in one minute. This limit may vary from firm to firm. This occasional lack of bandwidth in processing very large allocation trades should not result in a

¹⁰ FINRA Notice at 5036.

¹¹ FINRA Notice at 5041 (footnotes omitted).

compliance violation. Instead, the rule should allow processing limitations for large allocations to form a reasonable basis for why a trade was not reported in one minute.¹²

Large portfolio trades can engender similar system processing limitations that impact reporting times and should be treated similarly to large block allocations. Of particular concern is that for a late reported large allocation or portfolio trade, the SRO fines can apply to each late report component, so each trade could expose members to tens of thousands of dollars of potential liability.

2. Batch Processing and Involvement of Multiple Systems in Trade Workflow – Related to the immediately previous section, the proposed rules do not adequately account for the reality that batch processing and the use of multiple systems in post-trade workflows can delay reporting even though there is no manual component.

Below we provide examples of generic allocation workflows illustrating our concern. These examples also illustrate issues with RTRS reporting that typically involve multiple systems and vendors:

- Industry members commonly maintain multiple systems to handle advisory order execution, including automated reporting of post-trade allocations, in corporate and municipal bonds. Separate systems may be maintained for:
 1. Order entry and trade billing;
 2. Order execution;
 3. Back-office system processing; and
 4. TRACE or RTRS reporting.
- A typical straight-through processing workflow for TRACE or RTRS reporting might include following:
 1. Order entry in system A, which transmits order to execution system B for handling by trader;
 2. Following execution in system B, order is transmitted to back-office system / TRACE reporting system, which promptly transmits systematic TRACE report for street-side leg of transaction;
 3. Back-office system C transmits execution message to order entry system A, which systematically processes all account-level trade execution billings; and

¹² The need for separate reporting of allocations should be re-examined, as allocation trades provide no new information and in fact may create potentially misleading information as to the number of trades and liquidity in a particular security. Allocation reports also create the misperception that smaller trade sizes would trade at the preferential block-level trade price. Allocation trades should not be subject to immediate submission to TRACE.

4. Order entry system A transmits account-level allocation details to back-office system C, which systematically reports all account level allocations to TRACE or RTRS.

Because the proposed rule's manual trade exception is not applicable here, the SROs should accommodate the reality that having data flow through multiple systems or batch processing may cause delays in reporting beyond one minute. In these instances, rather than cite the firm for compliance violations, the firms should be encouraged, and provided enough time, to work with vendors to develop systems architecture that allows for faster reporting, as a simultaneous, comprehensive rearchitecting of numerous trade management systems across all FINRA members who trade fixed income securities is neither possible nor advisable, especially given the limited enhancement to transparency it would provide.

3. The SROs Should Have Flexibility to Address the Current Technology Limits

Putting these two concerns together, even in a fully automated environment, processing pipelines or architecture may effectively prevent reporting within one-minute. Accordingly, instead of exposing members to fines and disciplinary action for using today's pipelines and architecture, the final rules should provide that member firms who report trades as soon as is practicable, but face systemic limitations in, e.g., reporting 15,000 allocations in a minute, have a reasonable basis for reporting trades in longer than one minute.

D. The De-Minimis Exception Will Protect Smaller Dealers

The de minimis exception is appropriately based on trade numbers that are correctly sized to protect minority, veteran and women owned business enterprises and small dealers from incurring the significant costs associated with the proposed rule. The proposed two-year look back period will prevent surprise application of the rule and allow newly impacted members some time to attempt to implement systems to attempt to achieve compliance.

E. Various Other Changes That Should Be Made to the Proposals

1. Manual trade indicator – The manual trade indicator should be converted to an STP trade indicator. In particular, the manual trade indicator will be difficult to implement because it will require personnel to identify a particular manual component and then add an indicator. That type of process cannot be effectively implemented or monitored for compliance and is likely to further delay reporting. On the other hand, an STP trade indicator would give firms a way to uniformly indicate which trades were subject to STP and would result in greater compliance certainty without sacrificing data integrity for the SROs.

2. Existing Large Trade-Related Provisions Should Be Reviewed – The SROs recognize that real-time reporting of block trades can have a negative effect on liquidity and pricing. As a result, MSRB intends to retain a dissemination delay where the par value of a block transaction is greater than \$5 million. Similarly, FINRA intends to maintain the current trade dissemination caps. However, given the significant change in reporting timelines envisioned by the proposed rules, FINRA and MSRB should review provisions of their rules related to larger trades to ensure they appropriately protect the liquidity of the market for block-size trades.
3. The Compliance Period Should Be Extended and Offer Broker-Dealers a Meaningful Opportunity to Make Systematic Changes - Currently, the Proposals will be made effective upon a regulatory notice by the SROs. Because members will need significant time to review systems to ensure that one-minute reporting can be accomplished; create systems, policies and procedures for manual trade indicators; and train staff, the rule, if approved, should allow for a two-year implementation period. Operational changes necessary to effect this rule change will require the cooperation of, and systems changes at, a variety of industry vendors in addition to the broker-dealers. This type of significant operational change requires a substantial amount of time to conduct testing across platforms and between members and their vendors. Due to the high costs of systems development, vendors typically will only begin the process of adapting their systems to a regulatory change after that change has been finalized. As such, an effective date of two years after the rules have been finalized is the minimum time period the industry would need to come into compliance.

III. Conclusion

In summary, we believe the current trade reporting framework appropriate balances transparency, the ability to reasonably comply, and market liquidity. We believe that changes to the current reporting framework should be implemented in a manner that provides a reasonable opportunity for compliance, does not expose FINRA members to excessive non-compliance risk or jeopardize the liquidity of the underlying fixed-income markets by disincentivizing certain kinds of trading. As such, if regulators desire certain products move to a one-minute reporting timeframe (which we do not believe is necessary in the first place), we believe a phased-in manual trade exception that recognizes the evolving OTC nature of the fixed-income markets is essential.

We would be pleased to discuss any of these comments in greater detail, or to provide any other assistance that would be helpful. If you have any questions, please do not hesitate to contact the undersigned at 202-962-7300, or with respect to municipal securities, Leslie Norwood at 212-313-1130, or with respect to TRACE-Eligible Securities, Chris Killian at 212-313-1126, or with respect to the SIFMA AMG, William Thum at 202-962-7381.

Respectfully submitted,



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President and CEO

cc:

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