

Federated Investors, Inc.  
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FederatedInvestors.com



June 10, 2019

**Via Electronic Mail (pubcom@finra.org)**

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

Re: Regulatory Notice 19-12 | Trade Reporting and Compliance Engine (TRACE)

Dear Ms. Asquith:

Federated Investors, Inc. (“Federated”) appreciates the opportunity to comment on the Financial Industry Regulatory Authority’s (“FINRA”) Regulatory Notice 19-12, in connection with FINRA’s proposed pilot program to study changes to corporate bond block trade dissemination, based on recommendations of the U.S. Securities and Exchange Commission’s Fixed Income Market Structure Advisory Committee (“FIMSAC”).<sup>1</sup> The proposed pilot program consists principally of two changes based upon FIMSAC’s recommendations: (1) an increase to the current trade size dissemination caps for large corporate bond trades; and (2) a 48-hour dissemination delay for trades above the caps.<sup>2</sup> These changes were recommended on the basis of a perceived dealer cost attributed to post-trade transparency requirements under FINRA Rule 6730, which requires dealers to report trades within fifteen minutes of the transaction.<sup>3</sup>

In our view, the pilot program significantly decreases transparency for market participants, shifts transaction costs from the largest asset managers to smaller managers, and undermines regulatory oversight, without any equally significant corresponding liquidity benefit for the market. In particular, Federated strongly objects to a 48 hour dissemination delay.

- Federated believes that the proposed change will reduce transparency and the efficiency of the fixed income market, which is *per se* contrary to the SEC’s statutory mission of promoting market efficiency.

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<sup>1</sup> FINRA Regulatory Notice 19-12 (TRACE).

<sup>2</sup> Recommendation for a Pilot Program to Study the Market Implications of Changing the Reporting Regime for Block-Size Trades in Corporate Bonds (April 9, 2018), available at [www.sec.gov/spotlight/fixed-income-advisory-committee/fimsac-block-trade-recommendation.pdf](http://www.sec.gov/spotlight/fixed-income-advisory-committee/fimsac-block-trade-recommendation.pdf).

<sup>3</sup> Transcript of FIMSAC Meeting (January 11, 2018), available at [www.sec.gov/spotlight/fixed-income-advisory-committee/fimsa-011118-transcript.txt](http://www.sec.gov/spotlight/fixed-income-advisory-committee/fimsa-011118-transcript.txt).

- The 48 hour delay appears to be intended to accommodate the circumstances of the largest buy-side participants in executing large trades. This may simply reflect the possibility that these institutions have reached their capacity limit in managing fixed income funds. The 48 hour delay would therefore improve liquidity for these institutions while impairing market efficiency for other market participants. This is *per se* contrary to the SEC's statutory missions of promoting competition and market efficiency.
- The proposed 48 hour delay will increase systemic risk in the markets. During times of stress, it is critical for both market participants and regulators to have maximum transparency into stress factors that can impact the ability of registered advisors to meet their obligations under Rule 22e-4, among other things. Eliminating this transparency to accommodate a minority of advisors is contrary to the objectives of the Dodd Frank Act that are intended to enable regulators and market participants to reduce the risks to financial stability.
- An inherent benefit of market efficiency, and a longstanding goal of numerous regulatory bodies, is to enable and promote price discovery. The proposed 48 hour delay will reduce both transparency and the ability of both registered and private investment vehicles to correctly price securities; and is thus *per se* contrary to the SEC's statutory mission of market efficiency.

Federated acknowledges the dealer cost identified by FIMSAC inherent in the immediate post-trade transparency requirement. The largest dealers in the U.S. corporate bond market have difficulty offloading large blocks of corporate bond securities because of the transparency provided by the 15 minute reporting obligation for large corporate bond block trades, which they claim converts into an economic cost through, *inter alia*, adjustments to their pricing to reflect the cost of immediate post trade transparency.<sup>4</sup> Within the broader context of diminishing scale compressing the trade activity for dealers in this echelon, we recognize that eliminating such additional outside costs may marginally boost their liquidity by allowing them to offload very large block trades more efficiently, and correspondingly may potentially increase their trade volume since they could more frequently take very large positions with reduced inventory-related costs and offload them very quickly.

Conversely, however, Federated observes that instituting a 48-hour dissemination delay for trades above the cap would deprive the market of price or size information for these trades during the dissemination delay period, likely subjecting customers to harm from transacting at inferior prices to those at which they would transact if they had the information. In essence, the 48 hour dissemination delay does not reduce an inorganic structural "dealer cost", it shifts a real transactional cost to the customer.

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<sup>4</sup> Letter from Sandra E O'Connor, Chief Regulatory Affairs Officer, JPMorgan Chase & Co., to SEC and FINRA (June 29, 2018).

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The purpose of reapportioning this transactional cost is not to significantly improve liquidity, but rather to provide a relief valve for the largest asset managers in the U.S. corporate bond market who (due to size issues present only at the highest echelon). There are commercial means available to larger traders to mitigate this problem. For example, Federated concurs with the position taken by Messrs. Harris, Venkataraman, and Walter that large traders can reduce the price impact of immediate dissemination by selling slowly.<sup>5</sup> Federated also supports their conclusion that market structure should not favor large traders to the detriment of smaller traders.<sup>6</sup>

Finally, Federated urges FINRA to consider the regulatory impact resulting from reduced transparency. At least one purpose of TRACE reporting was to respond to SEC Chairman Levitt's call to "enable regulators to take a proactive role in supervising the corporate debt market, rather than only reacting to complaints brought by investors".<sup>7</sup> Technological advances have catalyzed such exponential growth in trade volume and speed that one might reasonably argue that even 15 minute reporting is no longer timely enough to enable "proactive" regulatory oversight.

While the speed, efficiency, and interconnectedness of the modern US corporate bond market drive the need for more liquidity and accelerate trade volume growth, their dizzying effects also reduce regulatory efficiency in supervising and monitoring the market. In order to efficiently respond to market developments proactively, regulators must have timely transparent access to trade information. In our view, a 48 hour delay would almost certainly place regulators in a reactive position, while further oligopolizing the industry.

Federated appreciates the opportunity to provide feedback to FINRA as it evaluates potential changes to Corporate Bond Block Trade Dissemination. We would be happy to discuss these comments in detail with the FINRA and its staff.

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<sup>5</sup> Letter from Larry Harris, Fred V. Keenan Chair in Finance, USC Marshall School of Business, Kumar Venkataraman, James M. Collins Chair in Finance, Southern Methodist University, and Elisse Walter, Former Chairman, SEC, to Brent J. Fields, Federal Advisory Committee Management Officer and Secretary, SEC (August 21, 2018).

<sup>6</sup> Id.

<sup>7</sup> "The Importance of Transparency In America's Debt Market" – Remarks of Chairman Arthur Levitt at the Media Studies Center, New York, N.Y. (Sep. 9, 1998), available at <<https://www.sec.gov/news/speech/speecharchive/1998/spch218.htm>>.

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Sincerely,

A handwritten signature in blue ink, appearing to read "M. Granito", enclosed in a light blue rectangular box.

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Michael R. Granito  
Chief Risk Officer  
Federated Investors

cc:

Mr. Robert Cook, President and Chief Executive Officer, FINRA  
Mr. Robert Colby, Executive Vice President and Chief Legal Officer, FINRA  
The Honorable Jay Clayton, Chairman, U.S. Securities and Exchange Commission  
The Honorable Robert J. Jackson Jr., Commissioner, U.S. Securities and Exchange Commission  
The Honorable Hester M. Peirce, Commissioner, U.S. Securities and Exchange Commission  
The Honorable Elad L. Roisman, Commissioner, U.S. Securities and Exchange Commission  
Ms. Dalia Blass, SEC Director of the Division of Investment Management  
Brett Redfearn, SEC Director of the Division of Trading and Markets