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MANAGEMENT

7 June 2019

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

VIA E-MAIL: pubcom@finra.org

Re: Comments on Regulatory Notice 19-12: a Proposed Pilot Program to Study Recommended Changes to Corporate Bond Block Trade Dissemination

Dear Ms. Asquith:

Wellington Management Company LLP ("**Wellington Management**")[1] appreciates the opportunity to comment on Regulatory Notice 19-12 (the "**Notice**") issued by the Financial Industry Regulatory Authority ("**FINRA**") on April 12, 2019. Wellington Management is a large institutional asset manager managing, as of 30 March 2019, approximately $404 billion of client assets in fixed income strategies.

The Notice describes a proposed pilot program (the "**Pilot**") designed to study two potential changes to dissemination of corporate bond trade information via the Trade Reporting and Compliance Engine ("**TRACE**"): (i) an increase to the current dissemination caps for corporate bond trades; and (ii) delayed dissemination of any information about trades above the proposed dissemination caps for 48 hours. This proposal was in line with changes recommended by the Security and Exchange Commission's Fixed Income Market Structure Advisory Committee ("**FIMSAC**").

We commend FINRA's initiative in proposing this Pilot. As we wrote in response to the FIMSAC recommendation and as discussed in more detail below, we believe that the changes implemented in the Pilot have the potential to improve liquidity and pricing in the corporate and high yield bond markets.[2] At a minimum, we believe the Pilot will provide valuable information with regard to the impact of transparency (both of trading sizes and timing of dissemination) and on the efficient functioning of fixed income markets.

NECESSITY OF PILOT

Generally speaking, transparency can provide greater price competition and better price discovery; however, in bilateral markets, too much transparency may have a negative impact on liquidity. In a bilateral market, the dissemination of an intermediary's transaction activity can move markets against that

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1 Wellington Management is a private partnership registered as an investment adviser with over $1 trillion in assets under management as of 30 March 2019. Tracing our roots back to 1928 with the establishment of the first balanced mutual fund, the Wellington Fund, Wellington Management has managed mutual funds for 90 years.

2 Letter of Wellington Management Company LLP to Mr. Brent J. Fields and Mr. Robert Cook, 4 February 2019.

intermediary. In US fixed income markets, we have observed that dissemination of a dealer's purchase of securities via TRACE is often followed by declines in published bids for those same securities. We believe that this is largely due to market participants taking a dealer purchase TRACE print as an indication that the dealer is now a ready seller of those securities – especially in the cases of large block transactions. This effect can serve to increase the risk to dealers providing liquidity and therefore serve as a deterrent for them to do so. Indeed, we have observed our counterparties becoming more hesitant to take on large block transactions for our clients.

Given this potential for transparency to have a negative impact on liquidity, we believe that assessing current market regulation to ensure that the markets have achieved the correct balance of transparency is critical, especially as markets have evolved in the decade since the financial crisis. Prudential regulation adopted in the wake of the financial crisis has had the effect of reducing dealer inventories and has limited their ability to take on the economic risks that are associated with providing liquidity. Dealers maintaining smaller inventories are less likely to provide liquidity for positions that they may not be able to re-sell after a short period. In addition, dealers providing liquidity to markets face an asymmetry of risk in that there is a limited upside to any given trade and fairly significant downside, including loss of the entire purchase price. These risks increase significantly in periods of market stress. We are concerned that in times of market stress, the risk to dealers of providing liquidity will increase to an inflection point where they will back away from the market or, at worst, quit participating altogether. This makes striking the right balance between liquidity and transparency all the more critical, as the level of transparency in a market can encourage or discourage dealer market making. We believe the Pilot will provide information necessary to understand the relationship between transparency and liquidity to ensure we are striking the correct balance to ensure market resilience.

STRUCTURE OF PILOT

We believe the proposed Pilot is structured appropriately to explore whether and how changes to the levels of transparency ultimately impact liquidity. The proposed Pilot will provide information about this relationship on two metrics: (1) dissemination of order size information; and (2) the timeliness of dissemination of large block trades. To accomplish this. the Pilot program creates three test groups of issuers and one control group. Group One would be subject to the introduction of the 48 hour delay. Group Two would be subject to increased dissemination caps (from $5 million to $10 million for investment grade bonds and from $1 million to $5 million for high yield bonds) with no changes to the timing of dissemination. Group Three would be subject to both the increase of the dissemination caps and the introduction of the 48 hour delay. The final fourth group would serve as a control group. By creating groups of securities subject to only one of the two changes, the impact of these changes can be studied in isolation, and with a third group that combines both changes, we will be able to observe whether the combination of changes alters the results.

We think this division is valuable because our experience suggests that the impact of transparency on liquidity is dependent on the size of the trades at issue. The negative impacts of transparency are most acutely apparent with respect to larger block trades (i.e., greater than $10 million for investment grade and greater than $5 million for high yield), whereas smaller-sized trading could be encouraged by increased transparency. Since both changes could yield positive changes with respect to market liquidity, we support the structure as proposed as a method to determine how each change impacts the market individually and together.

While we believe the pilot will provide valuable data on the impact of transparency of liquidity, we note that TRACE data will necessarily relate to the most liquid segments of the fixed income markets (i.e., where trading is occurring). It is possible that the impacts of the Pilot on the less liquid segments of the market may not be immediately obvious from the data collected. For example, we believe the 48-hour delay on dissemination will have the greatest impact on bonds that naturally trade less and therefore are not represented as often on TRACE. As a result, we recommend that the evaluation of the success of the Pilot be based not only on the impact shown in TRACE data, but also on the overall experience of market participants.

POTENTIAL IMPACT OF PILOT

We believe the Pilot will show that both proposed changes are liquidity-enhancing. The increased dissemination caps should show that liquidity improves with increased price-discovery, and the 48 hour delay should show that dealers will be more likely to transact in large blocks (and therefore provide more liquidity) when provided with a period of time to resell acquired positions before the publication of their purchase price.

We also believe that the Pilot will have limited impact on the veracity of pricing data provided by pricing services, even on the test groups that introduce a reporting delay. While increased transparency provides greater information and therefore accuracy of pricing, we believe that delaying the dissemination of large block trades will actually improve (rather than diminish) the accuracy of pricing. In our view, the publication of a large block trade in a name artificially reduces the available bids, as market participants are reacting to the potential to trade with an incentivized seller (i.e., the purchasing dealer) rather than any change to the fundamentals of an issuer. By introducing a delay, market participants will not be able to assume that there is an incentivized seller (since the dealer has had 48 hours to re-sell their purchased securities) and therefore will likely continue to publish bids on the basis of issuer fundamentals and aggregate market demand. In addition, large block trades often price differently than smaller transactions that are more commonly executed, so the price of a large block may be less relevant to determining the most accurate price for a security.

Further, we believe the Pilot will benefit markets as a whole, rather than just the largest market participants. The increased dissemination caps will allow for increased transparency across the markets to the benefit of all market participants. The dissemination delays may only directly benefit those market participants who transact in blocks of over $5 or $10 million, but, as discussed above, the publication of those trades may actually be resulting in artificially depressed pricing. If so, correcting this artificial depression will also benefit the markets as a whole. Finally, larger market participants are currently subject to a disadvantage where dealers are not willing to transact in blocks sufficiently large to accommodate their intended sales. In light of this, the dissemination delay serves to level the playing field for the markets as a whole.

ALTERNATIVES TO THE PILOT

While we support the Pilot as proposed, we acknowledge that there may be other proposals that may also provide information on the relationship between transparency and liquidity and address the potential adverse impacts of transparency on market liquidity. As noted above, we are concerned that the current market requirements may not strike the correct balance between transparency and liquidity, and we would support any alternatives that serve to inform regulation to better balance these needs.

CONCLUSION

We believe that the proposed Pilot will provide critical information on the relationship between transparency and liquidity that will allow for regulations that support a more liquid and robust market. We have outlined our views and expectations above, but we are aware that there are divergent views within the industry as to how these factors will impact markets. This very divergence of opinion reinforces the need for the data that the Pilot will generate. The Pilot may show that there is only limited or even no benefit to delaying transaction reporting, or it may show that liquidity is clearly enhanced. In either case, we believe gathering the data is a critical next step in understanding how these factors effect pricing, transparency and the operation of our fixed income markets.

We appreciate the opportunity to comment on the Notice. If you have any questions about our comments or would like any additional information, please contact me or Lance C. Dial at the number above.

Very truly yours,

Jed Stevenson
Senior Managing Director
Wellington Management Company LLP