Nasdaq

Execution Access LLC

February 16, 2021

Via Email Only

Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA 1735 K Street, NW
Washington, DC 20006-1506
pubcom@finra.org

Re: ***Regulatory Notice 20-43 Trace Proposal***

Dear Ms. Piorko Mitchell:

Execution Access LLC (EA) respectfully submits this letter to FINRA to comment on the above referenced proposal regarding potential enhancements to the information reported to FINRA's TRACE facility regarding transactions in U.S. Treasury securities. Specifically, potential changes to TRACE reporting for U.S. Treasury securities that would require: (1) more granular execution timestamps; (2) a shortened trade reporting timeframe; (3) new indicators to identify non-alternative trading system (ATS) trading venues and method of execution, the trading unit within a firm executing a trade, and the method used to clear and settle a transaction; (4) new modifiers to identify additional multi-leg transactions and whether a transaction is priced at the current market; (5) standardized price reporting; (6) separate reporting of per-transaction ATS fees; and (7) whether the proposed changes should apply to all TRACE-eligible securities uniformly, if applicable..

EA generally supports the proposal. Increased operational efficiencies related to fixed income and government securities Trace Reporting would benefit the industry. Our comments to each proposal section are detailed below:

I. Execution Timestamps

We understand that FINRA is considering revising the existing rule to require that members report transactions executed electronically in U.S. Treasury securities to TRACE in the finest increment of time captured by the firm's execution system, but at a minimum, in increments of a second. Where a firm executes transactions in U.S. Treasury securities through an external system, FINRA is considering requiring that firms report such transactions to TRACE consistent with the Time of Execution communicated by the execution venue.

<u>EA supports FINRA's efforts to normalize Time of Execution information received.</u>

We also support the general language in Proposed Changes of the Execution Timestamp section . However, the issue with this language is that it states worse case but not best case. It should indicate best and worst boundaries. The worst being 1 second, and best 1 microsecond as currently supported by TRACE facility.

II. Reporting Timeframe Reduction

We understand that FINRA is considering amending the current rules to provide that:

- for transactions executed on a business day at or after 12:00:00 a.m. through 7:59:59 a.m., firms would be required to report the trade the same day no later than 60 minutes after the TRACE system opens.
- for transactions executed on a business day at or after 8:00:00 a.m. through 6:29:59 p.m., firms would be required to report the trade within 60 minutes of the Time of Execution, except that, for transactions executed on a business day less than 60 minutes before 6:30:00 p.m., firms would be required to report the trade no later than 60 minutes after the TRACE system opens on T+1 (and, if reported on T+1, designated “as/of” with the date of execution).
- for transactions executed on a business day at or after 6:30:00 p.m. through 11:59:59 p.m., or for trades executed on a Saturday, a Sunday, a federal or religious holiday, or other day on which the TRACE system is not open at any time during that day, firms would be required to report the trade on T+1 no later than 60 minutes after the TRACE system opens (and must designate the trade “as/of” and include the date of execution).

EA supports FINRA’s proposal to normalize TRACE reporting. NFI already applies this timeframe. 60 minutes is significant step forward and yet still allows time to resolve any system issues without exceeding the required parameters. For transactions executed at or after 6:30:00 p.m. through 7:59:59 a.m., EA already reports trades no later than 60 minutes after the TRACE system opens. For transactions executed at or after 8:00:00 a.m. through 6:29:59 p.m., EA reports as soon as availability of reporting facility will allow.

III. Platform Information and Trading Method

We understand that FINRA is considering changes to require members to report information regarding the identity of any non-ATS electronic trading platform through which a transaction in a U.S. Treasury security occurs as well as the method of execution (i.e., voice or electronic) of a transaction in a U.S. Treasury security. In addition, to capture additional information about the trading that occurs through these platforms, FINRA is considering requiring members, when reporting transactions in U.S. Treasury securities to TRACE, to populate a separate field to identify the non-ATS platform on or through which it transacted. FINRA is considering requiring members, when reporting transactions in U.S. Treasury securities to TRACE, to populate a separate field to identify the non-ATS platform on or through which it transacted.

For purposes of the proposal, a "non-ATS trading platform" would include any electronic system that does not meet the definition of an ATS under SEC Regulation ATS, through which multiple parties facilitate orders, request-for-quotes (RFQs), or negotiate the terms of a trade in a U.S. Treasury security. These platforms currently do not have a separate MPID and are not otherwise identifiable in TRACE reports. Under the proposal, members would be required to identify the non-ATS trading platform for those transactions that originated or occurred through the platform. To provide consistent identification of these platforms across TRACE reports, FINRA would provide to reporters a list of non-ATS trading platform identifiers for use in populating the new field. If a member trades in a U.S. Treasury security through a platform not yet included in the TRACE list, the member would be required to notify FINRA so that the platform can be added to the list of identifiers.

EA supports FINRA's proposal requiring members, when reporting in to TRACE, to populate a separate TRACE field to identify U.S. Treasury securities transactions effected on, or through, a non-ATS platform. EA obtained a separate MPID to distinguish U.S. Treasury securities transactions effected on, or through, the non-ATS platform vs those effected on the ATS platform and supports FINRA's proposal to use a unique identifier for each non-ATS trading platform used for transactions in U.S. Treasury Securities. Such a requirement only seems logical.

EA supports the SEC proposed amendments to SEC Regulation ATS that would eliminate the existing exemption for an ATS that trades only government securities, including U.S. Treasury securities provided that all market participants that effect transactions in Treasuries be required to report those transactions. Increased diversity in the government securities market means that platforms are no longer strictly dealer-to-dealer and the exemption for Treasury-only platforms may have little to no relevance today. Transparency regarding pricing, market activity and market quality promotes healthy competition in the market place.

IV. Desk Identifiers

We understand that FINRA is considering adding a new trading desk or unit identifier field for U.S. Treasury securities reporting to identify the specific desk or unit within a member firm executing the transaction. Member counterparties currently are identified in TRACE by the MPID submitted in the transaction report. Specifically, FINRA would require members to assign and enter an additional identifier for each desk or unit at the firm that executes transactions in U.S. Treasury securities. Firms would provide FINRA with a list of all desks/units within the firm that may trade a U.S. Treasury security, along with the firm-generated identifier for each (within the alpha or numeric parameters specified by FINRA). Members also would be required to keep FINRA informed of any change to the member's desk or unit identification assignments by providing FINRA with the updated assignments by the next business day following the implementation of such change. FINRA would not require that each trading desk or unit have a separate MPID, nor would firms be required to modify their existing organization in any way.

Allowing each firm to specify the relevant desks and units and assign identifiers provides firms with flexibility and, therefore, accounts for varying structures across different member firms.

EA is concerned that trading desk identifiers could cause reconciliation issues if an ATS would be required to report as such. We are fine with member firms separately providing that to the regulator but we do not believe this is applicable for the ATS.

V. Clearing Arrangement Indicator

We understand that FINRA is considering requiring members to append a new indicator that would identify whether a transaction in a U.S. Treasury security will be cleared centrally or bilaterally. We understand that it is FINRA's view that the method by which a transaction is cleared and settled—specifically whether the parties to the transaction use a central clearing counterparty—affects the degree and type of risk the parties bear (e.g., counterparty financial exposure). Although recent efforts have been made to expand the scope of transactions that are centrally cleared through FICC, market developments in recent years have prompted calls for greater study of the clearing practices and counterparty risk in this market.

EA supports FINRA's proposal to append a new indicator that would identify whether a transaction in a U.S. Treasury security is cleared centrally or bilaterally. This would be a positive for venues and the overall market structure. Of note, we already have the indicator if the client is clearing FICC, FedWire or PairOff.

VI. Multi-leg Transaction Modifiers

We understand that FINRA is considering whether additional modifiers to identify specific categories of multi-leg transactions involving a U.S Treasury security are appropriate, as well as an additional modifier to indicate whether the U.S. Treasury security transaction is priced at or off market. Currently, members are required, among other things, to identify a transaction in a U.S. Treasury security that is: (a) part of a series of transactions where at least one of the transactions involves a futures contract with the .B modifier; and (b) part of a series of transactions where one or more legs may not be priced based on the current market with the .S modifier.

Further, FINRA is considering adding modifiers to further distinguish various strategies, as well as to provide information as to whether the transaction in the U.S. Treasury security is priced at the current market.

EA supports FINRA's proposal as we understand that it is FINRA's intention to group strategies in broad categories as detailed in the proposal. Further, we understand that with respect to swaps ad similar strategies FINRA understands that certain legs of the transaction will not be sensitive to market price and may be off market.

VII. Standardized Price Reporting

We understand that FINRA is considering FINRA is considering whether it is appropriate to require that firms report the discount rate for transactions in Treasury bills and the discount margin for transactions in FRNs, rather than also being permitted to report the dollar price in these instances. Currently, members are required to report the price of a transaction or the elements necessary to calculate the price. Certain U.S. Treasury securities are traded and quoted using different price conventions, including Treasury bills (which use a discount rate) and floating rate notes (FRNs) (which use a discount margin). FINRA has issued guidance to members that, in such cases, members may report the price of a transaction as either the discount rate or discount margin, but members are still permitted to report the dollar price. As a result, FINRA is considering changes to require further standardization of the measure used to report price in these types of U.S. Treasury securities.

EA supports FINRA's proposal to standardize price reporting such that firms report the discount rate for transactions in Treasury bills and the discount margin for transactions in FRNs, rather than also being permitted to report the dollar price in these instances.

VIII. Report ATS Fees Separately

We understand that FINRA is considering requiring that members report per-transaction ATS fees separately from the price when reporting transactions in U.S. Treasury securities to TRACE. Thus, under the proposal, instead of reflecting any per-transaction fee in the price, members would report the price (exclusive of such fees) and include these fees in a new, separate, per-transaction, ATS fee field. We appreciate that FINRA understands that ATSs may assess fees to subscribers in a variety of ways—e.g., an ATS may bill subscribers on a monthly basis or may charge a per transaction fee. Further, per-transaction fee arrangements may differ among subscribers, resulting in different fees being assessed to each counterparty to a trade.

EA would support separating the fee (mark up/ mark down) if it was only intended for a simplification of matching more trades efficiently. We do not support if FINRA intends to use this data to understand the economics of trading as "in price" fees are only a subset of potential revenues. In addition we expect FINRA to alert member firms of this change. We are concerned that member firms only pass along our execution messages. We do provide member firms with all the information that would possibly be required if a change was going to be made.

IX. Preliminary Economic Impact Analysis and Request for Comments

We understand that FINRA requests comment on all aspects of this Notice, including the costs and burdens associated with these potential enhancements, as well as whether changes described in the proposal would apply only to TRACE reporting of transactions in U.S. Treasury securities. Specifically, FINRA has asked:

- What, if any, impacts might the above changes have in the aggregate on competition for execution services in U.S. Treasury securities, such as between member and non-member firms and between ATSs and other execution venues?
- Should the changes described above be implemented at the same time or should implementation be staggered? If the latter, in what order should the changes be implemented and why? Should some subset of the above changes be implemented together (e.g., to take advantage of technological efficiencies)? If so, which ones and why?
- What, if any, other costs or economic impacts might be associated with the changes outlined here? Are any of these costs quantifiable? If so, please quantify.
- Are there any other issues specific to TRACE reporting of U.S. Treasury securities transactions that FINRA should consider?

<u>EA suggests that the proposed rule changes be subdivided into at least 2 groups and phased in at differing intervals to mitigate the economic and operational burden on industry participants.</u>

Respectfully,

Ted Bragg

Ted Bragg- CEO Execution Access, LLC

cc: Racquel Russell
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