CAMBRIDGE

VIA ELECTRONIC MAIL: pubcom@finra.org

October 3, 2022

Jennifer Piorko Mitchell
Office of the Corporate Secretary
The Financial Industry Regulatory Authority, Inc.
1735 K Street, NW
Washington, DC 20006-1506

Re: **Regulatory Notice 22-17: Request for Comment on a Proposal to Shorten the Trade Reporting Timeframe for Transactions in Certain TRACE-Eligible Securities From 15 Minutes to One Minute Under FINRA Rule 6730**

Dear Ms. Mitchell,

Cambridge Investment Research, Inc. ("Cambridge") appreciates the opportunity to comment on the proposed rule change contemplated in RN-22-17 (the "Proposal") that would amend The Financial Industry Regulatory Authority's ("FINRA") rules regarding the trade-reporting timeframe for transactions in certain TRACE-eligible securities. Cambridge understands that this proposed change would require members to submit a report to TRACE as soon as practicable, but no later than one minute from the time of execution, for transactions in corporate bonds, agency debt securities, asset-backed securities and agency pass-through mortgage-backed securities traded to-be-delivered for good delivery.

Cambridge recognizes and appreciates FINRA's interest in rethinking the manner in which firms disseminate transaction data. However, for the reasons detailed below, Cambridge questions the practicality of the proposed one-minute limitation for the submission of reports to TRACE and requests that FINRA consider the following recommendations and concerns related to the Proposal.

I. Assumptions of Current Reporting Percentages Under One Minute as Derived from Reporter Activity Level

Cambridge understands and appreciates FINRA's desire to improve price data transparency. However, Cambridge believes that as drafted the Proposal will create an increase in late-reported trades without meaningfully improving the transparency of price data. For transactions executed in TRACE-eligible securities at or after 8:00 a.m. ET and before 6:15 p.m. ET, FINRA notes that 81.9 percent were reported within one minute of execution. FINRA also notes that corporate bonds comprised 87 percent of all trade reports in the sample and that 82.2 percent of those corporate bond reports were made within one minute of execution. Further, of the transaction report sampled by FINRA, only 18.8 percent of reporters submitted 95 percent of their reports for corporate bond trades within one minute of execution. The sampling data utilized by FINRA would, under the Proposal, cause 18.1 percent of all reportable transactions and 17.8% of all corporate bonds to fail.

Based upon this data alone, it is clear that the Proposal would create a much greater percentage of reporting failures for firms so that price data would be available within one minute, rather than the current 15-minute requirement. Cambridge questions the necessity of a one-minute reporting requirement for TRACE-eligible securities, as they are not quoted or traded with the same frequency or volatility as are stocks listed on the NYSE or NASDAQ. Any potential benefit in shortening the trade reporting time appears to be outweighed by the increase in reporting failures and, as discussed in more detail below, reporting errors.

Cambridge additionally believes that the metrics utilized by FINRA do not sufficiently account for the overrepresentation within the sample of active reporters and reports submitted via the FIX entry method. In the Proposal, FINRA notes that more active reporters submitted trades more quickly across the different types of TRACE-eligible securities subject to the Proposal, with very active reporters registering the highest percentages of reports in one minute or less for ABS, agency, and TBA GD categories. FINRA also indicates that for active reporters, 82 percent of corporate trades were reported within one minute, while less-active reporters and moderately-active reporters successfully reported within one minute only 45 percent and 43 percent of the time, respectively. FINRA also indicates that for all TRACE-eligible securities, reports submitted via the FIX entry method were reported within the one-minute timeframe 83 percent of the time while reports submitted via the web entry method met the one-minute timeframe only 14% of the time; only four percent of the active reporters used only the web entry method. In comparing the reports for all TRACE-eligible securities made within one minute with the reports made via the FIX entry method, the implication is that the FIX entry method was a dominant factor in the projections assigned to the entire sample.

Cambridge questions whether the underlying reporting sample utilized by FINRA in support of the Proposal was heavily weighted toward active traders or those reporting through the FIX entry method. Broad application of a one-minute trade reporting time limit for TRACE-eligible securities does not account for firms who report with less frequency than active reporters. Further, the ability for active reporters to make reports within one minute is likely due to integrated FIX reporting methods utilized by those active reporters. Requiring firms of varying sizes and business models who are not active traders or do not utilize the FIX entry method to similarly report trades in TRACE-eligible securities within one minute will ultimately result in those firms being unable to meet the reporting deadline. The Proposal creates an environment where firms can no longer comply with the transaction reporting requirements and will be subject to FINRA regulatory actions as a result of this non-compliance. Cambridge strongly encourages FINRA consider the failure rates the Proposal would create, particularly with respect to the diverse sizes and business models of firms who do not have the capability to report all TRACE-eligible securities within one minute.

II. Challenges Based on Types of Securities and Transactions

In the Proposal, FINRA questions why larger trades and trades in certain types of transactions took longer to report than the proposed one-minute timeframe. Cambridge believes that larger trades, due to their size, may be more likely to be executed manually or more likely to trigger additional manual safeguards, pre-trade filters, market-access controls or credit filters, thus resulting in slower reporting times. With respect to slower reporting of customer trades versus inter-dealer trades, Cambridge believes that inter-dealer trades are more likely to be executed and reported on a purely automated basis, while client trades are more likely to involve additional steps, such as manual keying after the dealer trade is complete or additional allocations to multiple client accounts.

In the Proposal, FINRA acknowledges reducing the reporting timeframe would necessitate a greater change in behavior for members in connection with some types of securities and transactions than others; however, the Proposal placed continued emphasis on this concern with respect to the types of securities involved, entry methods, and changes to reporting methods without much focus on the actual methods of transacting underlying the methods of reporting. Cambridge encourages FINRA to consider variables in the transaction methods which necessarily affect reporting times. For many members, a significant number of transactions are confirmed by voice, which require manual keying for dealer and client sides. When multi-entry transactions require manual keying with numerous client allocations (such as a buy order involving allocations to 12 separate client accounts), it may be impossible to meet a one-minute reporting timeframe, even with integrated TRACE reporting. Similarly, if a series of individual executions (such as a group of 15 sell orders when liquidating an account) are confirmed by voice, a one-minute reporting timeframe would require the transacting parties to confirm and synchronize trades, one at a time, then manually key them in a recurring series of individual transactions to avoid violating the one-minute reporting time frame. These scenarios would be even more challenging for firms using web-entry, only.

Cambridge urges FINRA to further evaluate the impact of the proposed one-minute reporting timeframe based on the numerous ways whereby transaction and allocation methods may necessitate additional time to comply with standards.

III. Operational Challenges & Market Impacts Related to the Proposed One-Minute Timeframe

In the Proposal, FINRA notes that 82 percent of all corporate trades were reported in one minute, but for trades which were later cancelled or corrected, only 66 percent were reported in one minute. FINRA makes the inference that the trades which were subsequently cancelled or corrected were reported more slowly due to a greater degree of implied difficulty with those trades. Cambridge believes additional analysis should be conducted, as it is possible that this observed decrease could be correlated with the reporter and method of transaction and allocation, rather than with report entry method or trade type.

Cambridge believes that the proposed changes, if adopted, would lead to more cancellations and corrections (and more late reports) since the potential for repairing an erroneous report without generating a true trade correction would shrink from 15 minutes to one minute under the Proposal and the chance of successfully mitigating an erroneous report within the proposed one-minute timeframe is minimal. Cambridge believes that in all circumstances, but especially those which require manual keying for entry or allocation of transaction data, trading and clerical personnel will be more likely to make mistakes, generate more late TRACE reports, cause more cancellations and corrections activity, and create more trading error events when attempting to comply with the proposed one-minute standard.

Additionally, Cambridge urges FINRA to consider the potential for member firms to limit or even cease working with firms providing access to fixed-income services and executions as a result of difficulties complying with the proposed one-minute reporting standard. Many member firms and their financial professionals leverage numerous third-party relationships to ensure broader access to bonds and inventories when buying, to locate more bids when selling, and to utilize for assistance in constructing custom ladders or model portfolios for retail clients. If these relationships were to become high-risk for reporting failures under a one-minute standard, members may be faced with a choice between meeting the one-minute reporting standard and giving up access to valued services, broader market access, and potential price benefits provided by those third-party relationships. Further, Cambridge believes it is likely that smaller, less active reporters would be negatively impacted while larger and more sophisticated firms with integrated trade processing and reporting channels would disproportionately benefit from such limitations, if imposed.

Cambridge appreciates the opportunity to offer comments regarding the proposed rule to increase transparency and improve access to timely transaction data for TRACE-eligible securities. Cambridge would be happy to discuss further any of the comments or recommendations outlined in this letter.

Respectfully Submitted,

/s/ Seth A. Miller
Seth A. Miller
General Counsel
President, Advocacy and Administration