

# FINANCIAL INFORMATION FORUM

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September 24, 2019

Marcia E. Asquith  
Office of the Corporate Secretary  
Financial Industry Regulatory Authority  
1735 K Street NW  
Washington, DC 20006-1506

RE: FINRA Regulatory Notice 19-25

Dear Ms. Asquith,

On behalf of member of the Financial Information Forum's ("FIF")<sup>1</sup> TRACE Working Group ("Working Group"), FIF would like to thank FINRA for the opportunity to comment on Regulatory Notice 19-25 – FINRA's proposed expansion of TRACE reporting to collect information on trades in foreign sovereign debt securities that are U.S. dollar denominated. In principal, FIF members agree with the proposed expansion of TRACE reporting to include U.S. dollar denominated foreign sovereign debt securities. While FIF members expressed general agreement with the proposed enhancements to TRACE, this letter highlights FIF members' views with respect to potential systems impacts, policy considerations, and open question (see Appendix A) that should be considered prior to the promulgation of a final rule that expands upon TRACE eligible fixed-income instruments.

## Current Status and Proposed Expansion

The Trade Reporting and Compliance Engine (TRACE) was originally developed by the National Association of Securities Dealers (NASD)(now FINRA) to allow for the reporting of over-the-counter (OTC) pertaining to eligible fixed-income securities.<sup>2</sup> Today, TRACE provides investors, broker-dealer, and regulators with access to information pertaining to almost all fixed-income trading activity, including transactional data pertaining to, *inter alia*, treasuries, corporate bonds, agency debt, and U.S. dollar denominated debt securities traded in the United States.<sup>3</sup> Currently, TRACE provides investors and other interested parties access to enhanced transactional data intended to promote greater market transparency in the fixed income market, including real-time order information, data feeds through end-of-day transaction reports, and historical statistics.<sup>4</sup>

On July 26, 2019, FINRA issued Regulatory Notice 19-25, requesting industry comment on a proposed rule change to require the reporting of transactions in U.S. dollar-denominated foreign sovereign debt

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<sup>1</sup> FIF ([www.fif.com](http://www.fif.com)) was formed in 1996 to provide a centralized source of information on the implementation issues that impact the securities industry across the order lifecycle. Our participants include trading and back office service bureaus, broker-dealers, market data vendors and exchanges. Through topic-oriented working groups, FIF participants focus on critical issues and productive solutions to technology developments, regulatory initiatives, and other industry changes.

<sup>2</sup> [Investopedia.com/terms/t/trace.asp](http://Investopedia.com/terms/t/trace.asp).

<sup>3</sup> *Id*; see also Regulatory Notice 19-25.

<sup>4</sup> *Id*.

securities to TRACE.<sup>5</sup> FIF believes that in principal, including eligible U.S dollar denominated foreign sovereign debt within the scope of TRACE reporting will provide FINRA the means to provide investors and other interested parties with greater transparency into the fixed-income markets. However, as will be discussed, *infra*, FIF strongly suggests that FINRA fully review, assess, and seek additional industry feedback pertaining to potential implementation challenges and open questions prior the publication of a final rule proposal that seeks to expand upon the current scope of TRACE-eligible securities.

#### TRACE Expansion – Implementation Considerations

FIF recognizes and appreciates that FINRA’s proposed expansion of TRACE to include U.S dollar denominated foreign sovereign debt will ultimately provide the regulators, investors, broker-dealers and other interested parties with increased transparency into the fixed-income market. However, FIF emphasizes that with any proposed rule expansion, regulators must fully assess whether the potential costs/resource burden imposed upon broker-dealers should the rule be approved outweighs potential benefits. Following the publication of Regulatory Notice 19-25, FIF engaged in both formal and informal discussions with industry members to better understand potential impacts to systems and operations should FINRA approve any expansion of TRACE to include U.S. dollar denominated sovereign debt. Upon initial review, FIF believes that expansion of TRACE may impose some development costs and implementation challenges to broker-dealers that trade U.S. dollar denominated foreign sovereign debt. In that spirit, FIF members have identified several open questions that should be considered prior to expanding upon TRACE that may ultimately impact the costs of implementation.

#### Availability of CUSIPs and Other Identifiers

Upon initial review of Regulatory Notice 19-25 with Industry Members, FIF believes that greater information is required regarding the means by which the CUSIPs specific to U.S. dollar denominated foreign sovereign debt will be disseminated to industry members. FIF believes that greater specificity is required regarding how FINRA expects firms to report U.S. dollar sovereign foreign debt should a CUSIP or other identifier not be available at the time that the debt security is initially traded. Currently, broker-dealers must register for and be assigned a CUSIP identifier once a new security is traded in the financial markets. However, FIF understands that certain U.S. dollar denominated foreign sovereign debt, especially those transactions derived from foreign issue desks, may not contain a CUSIP at the time the security becomes TRACE eligible. If FINRA and the SEC expand TRACE eligibility to include fixed income securities that may not include CUSIPs or another such identifier, FIF respectfully requests that FINRA provide greater detail regarding how firms should report TRACE-eligible securities should a CUSIP not be assigned.

FIF further recommends that FINRA consider allowing broker-dealers the option of appending other standardized identifiers on TRACE reports should CUSIPs not be available at the time that a fixed-income security is initially traded. For example, by allowing firms the optionality of leveraging a standardized identifier such as a Financial Instrument Global Identifier (“FIGI”)<sup>6</sup> and/or an International Securities Identification Number (“ISIN”)<sup>7</sup>, broker-dealers will be afforded additional flexibility to expeditiously report U.S. dollar denominated foreign debt securities should CUSIPs not be available at the time of reporting.

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<sup>5</sup> [Regulatory Notice 19-25](#).

<sup>6</sup> <https://www.openfigi.com/about/figi>

<sup>7</sup> <https://www.isin.net/isin-identifier/>

Additionally, as is specified in Appendix A, *infra*, FIF members believe that greater detail is required regarding how FINRA intendeds to provide broker-dealers with information regarding eligible CUSIPs in-scope of the proposed expansion. FIF believes that unlike bonds in which broker-dealers currently report to TRACE, the underwriting syndicate desk that issues U.S. dollar denominated foreign sovereign debt is likely to be completely outside of FINRA's jurisdiction. However, because many firms may not currently employ methodologies to perform reference data mapping to foreign issues that would fall under the scope of the proposed expansion, FIF recommends that FINRA strongly consider providing broker-dealers with access to a centralized data repository that will include all relevant information related to securities in scope pursuant to the proposed expansion of TRACE. FIF notes that if FINRA does not have a mechanism in place that to automatically add new bonds to a centralize securities list, many broker-dealers will likely reach out to FINRA on the same day, resulting in an inefficient process.

Should FINRA provide industry members with additional guidance required to determine whether a U.S. dollar denominated foreign sovereign security will be TRACE-reportable, additional detail is required regarding whether FINRA will provide the recommended TRACE-eligible list through a separate and distinct feed, or will CUSIP information be provided within a current feed? FIF members emphasize that clarity regarding how information pertaining to how FINRA intends to communicate CUSIP numbers of TRACE-eligible securities that may fall under the scope of the expanded rule. This information is critical as firms will be required to perform internal assessments as to whether potential systems enhancements may be required during the implementation phase if FINRA elects to expand upon the current scope of TRACE- eligible securities.

#### Execution Time/Settlement

FIF believes that the majority of the transactional activity that will result in U.S. dollar denominated foreign sovereign debt securities ultimately becoming TRACE reportable pursuant to the proposed expansion will be initiated in foreign markets (and ultimately traded on U.S. desks). Therefore, TRACE reportable time of execution data may not be easily identified by the U.S. broker-dealer who ultimately will be required to report U.S. dollar denominated foreign debt to TRACE. Additionally, trades in U.S. dollar denominated foreign sovereign debt may occur between a FINRA member and a foreign non-FINRA member, which may not be a valid U.S. business date. In many cases, broker-dealers do not permit domestic trades to be processed on a non-U.S. business date since the time of execution may occur during local time zone hours. Therefore, when the time of execution detail is processed the next business day, the time of execution will appear as though the trade occurred in the future, and may not be permitted by current system logic. In this scenario, altering the trade date will not be appropriate since it can impact the length to settlement.

FIF recommends that to allow time of execution detail to be accurately captured pertaining to new issues/transactions that initially occur on foreign markets, FINRA consider engaging in discussions with industry members to determine the availability of a cost-effective solution that will allow broker-dealers to accurately report time of execution detail. As an initial matter, FIF engaged in preliminary discussions with industry members and believe that a possible solution may involve the creation of a new modifier that can be appended to trades in fixed-income securities that initiate outside of U.S. markets. However, this solution may ultimately result in significant implementation issues, especially if the broker-dealer that trades in U.S. dollar denominated foreign sovereign debt cannot reasonably access time of execution detail pertain to trades that the broker-dealer did not initiate. Therefore, FIF strongly recommends that prior to the finalization of a rule proposal that expands upon TRACE reporting requirements, FINRA fully engage with industry subject matter experts to determine whether time of

execution detail pertaining to trades initiated in a foreign market can be accurately captured in a manner that does not impair trade settlement processes.

### Systems Development Efforts and Harmonization

FIF notes that with any regulatory reporting protocol that seeks to provide investors and other interested parties with greater transparency into the financial markets, such protocols should incorporate rule-based reporting methodologies. Therefore, FIF recommends that to better promote consistency across all TRACE-eligible fixed-income securities, all U.S. dollar denominated bonds (whether foreign sovereign debt or otherwise) should be treated in a similar fashion. As the fixed-income market continues to expand and proliferate, providing the industry with a systematic, rules-based approach to TRACE eligibility metrics and reporting logic will allow participants to electronically handle increasing amounts of bond trading via straight-through processing. Therefore, should TRACE be expanded to include U.S. dollar denominated foreign sovereign debt, FIF strongly recommends that FINRA should apply the same logic and reporting requirements across all U.S. dollar denominated bonds.

FIF further emphasizes that should TRACE be expanded, that FINRA require that all U.S. dollar denominated bonds should be reported through to the same TRACE system/engine (*i.e.* corporates) that are currently in existence. Leveraging existing TRACE reporting infrastructures and logic should better promote consistency in TRACE reporting, as well as to better allow broker-dealers an accurate baseline to determine TRACE eligibility. Further fragmentation in the TRACE reporting regime is likely to result in the inability of broker-dealers to apply rules-based logic in determining TRACE eligibility and could impair the ability of broker-dealers to accurately and consistently report all TRACE-eligible securities. Therefore, FIF strongly recommends that should TRACE be expanded to include U.S. dollar denominated foreign sovereign debt, that FINRA leverage existing TRACE reporting infrastructure and reporting logic to report. A separate and distinct reporting systems that encompasses only U.S. dollar denominated foreign debt securities will not only promote greater inconsistency and fragmentation within the fixed-income regulatory reporting infrastructure, but will also implicate significant costs which may potentially exceed the benefits of additional transparency that the rule seeks to provide investors.

### Definitional Clarity

Regulatory Notice 19-25 defines U.S. dollar denominated foreign sovereign debt securities as “debt securities that are issued or guaranteed by the government of a foreign country, any political subdivision of a foreign country, or a supranational entity. Supranational entities are multi-national organizations such as the International Bank for Reconstruction & Development (“World Bank”), the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the International Finance Corporation, and the European Investment Bank.”<sup>8</sup> While FIF believes that the definition of foreign sovereign debt securities do provide sufficient specificity regarding the additional securities that may be in scope should FINRA elect to expand upon TRACE reporting obligations, FIF believes additional specificity is required. Specifically, FIF members request that greater detail/examples be provided regarding what is considered a “political subdivision” under the definition. FIF believes that these additional details are critical to allow firms to better understand the full scope of debt securities that may be reportable should FINRA elect to expand upon what is currently reportable through TRACE.

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<sup>8</sup> *Supra* note, 5.

### Additional Recommendations

FIF recommends that prior to the finalization of a final rule that will expand upon TRACE reportable securities, FINRA perform an assessment to determine whether the reporting of U.S. dollar denominated foreign sovereign debt securities may result in cross-border rule harmonization implications that may potentially impair firms' ability to reasonably report to TRACE. Should securities in-scope pursuant to the proposed expansion of TRACE be reportable in jurisdictions outside of the United States, industry members and FINRA will need to ensure that extra-jurisdictional reporting requirements will not impair broker-dealers' ability to report through TRACE.

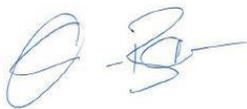
Furthermore, FIF believes that the intent of the proposed expansion of TRACE to include U.S. dollar denominated foreign sovereign debt instruments will promote greater transparency into the fixed income markets. However, should FINRA-registered broker-dealers be required to report U.S. dollar denominated foreign sovereign debt securities to another jurisdiction, FIF highly recommends that FINRA allow firms the option of exempting reporting to TRACE should a security be reported in another jurisdiction. This proposed optional exemption would prevent firms from dual reporting to FINRA and another jurisdiction's regulatory body, which will likely cause confusion regarding market sentiment conditions, trading volume, etc...

### Conclusion

FIF appreciates the opportunity to comment on Regulatory Notice 19-25. FIF continues to support FINRA's focus on providing investors and other interested parties with increased transparency into the financial markets. While FIF believes that the proposed expansion of TRACE to include U.S. dollar denominated sovereign foreign debt securities will ultimately provide greater transparency into the Fixed Income market, we request that the questions and recommendations contained in this letter and associated appendix be considered during the final rule development phase. FIF believes that the assessment of and response to industry member questions/concerns will ultimately result in a more streamlined and cost-effective implementation phase should FINRA elect to expand TRACE to include U.S. dollar denominated foreign sovereign debt securities.

FIF welcomes the opportunity to discuss the considerations raised in this letter at FINRA's earliest convenience.

Regards,



Christopher Bok, Esq.  
Director, Financial Information Forum

CC: Cara Bain, Assistant General Counsel, OGC, FINRA  
Alié Diagne, Director, Transparency Services, FINRA  
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## Appendix A

1. How will FINRA disseminate the list of TRACE-eligible securities/CUSIPs in scope pursuant to the proposed expansion? Will TRACE eligible CUSIPs be included within the existing TRACE eligible securities list (specific to U.S. Dollar denominated sovereign debt securities)?;
2. Because CUSIPs may not be available when a U.S. denominated foreign sovereign debt security becomes TRACE reportable, is there an opportunity for FINRA to consider other identifiers to report foreign debt securities (*e.g.* FIGI, ISIN);
3. Which TRACE reporting facility will be leveraged to report U.S. denominated debt (*i.e.* Corporates)?
4. FIF believes greater detail is required with respect to the settlement process:
  - a. Greater clarity is required regarding the time that should be reported at the time of execution;
  - b. Should firms report transactions that occur in foreign markets by leveraging the “as is” modifier?;
  - c. If a trade occurs at the end of the business day, may trades be reported on the next business day provided that the “as of” timestamp includes the correct transaction time?;
  - d. How should firms report transactions that occur as a result of a trade with a firm that is a foreign entity (*i.e.* does not have a MPID)?
5. Which Trade Modifier should be applied to each applicable trades in-scope under the proposed expansion? Will a list of trade modifiers be provided to industry members?;
6. Will U.S. Dollar Denominated foreign sovereign debt securities also be included within FINRA Rule 2232 (“Mark-Up/Mark-Down”)?;
7. Definition of U.S. Dollar Denominated Sovereign Debt:
  - a. Greater clarity is required regarding the definition of “political subdivision”;
8. Has FINRA assessed whether other jurisdictions require reporting of foreign debt securities. If so, has identified any harmonization issues that may pose implementation challenges?
9. Does FINRA anticipate disseminating a list of current foreign debt securities that may fall under the proposed rule?
  - a. Will FINRA publish an updated securities list if a foreign debt security is added or removed?