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August 15, 2016

Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street NE.
Washington, DC 20549-1090

Re: **SR-FINRA-2016-027,**
Proposed Rule Change Relating to the Reporting of U.S. Treasury Securities to the Trade Reporting and Compliance Engine

Dear Mr. Fields:

The Securities Industry and Financial Markets Association ("SIFMA")[1] together with its Asset Management Group ("AMG"),[2] appreciates the opportunity to comment on the Financial Industry Regulatory Authority's ("FINRA's") Rule Filing SR-FINRA-2016-027 (the "Proposal"), which would expand Trade Reporting and Compliance Engine ("TRACE") reporting rules to include certain secondary market transactions in marketable U.S. Treasury Securities.

SIFMA supports FINRA's efforts to create a database of Treasury market transactions that is available to the official sector. We believe that regulatory reporting of Treasury trades in the secondary market through TRACE provides a good first step in providing FINRA and other regulators greater clarity as to the nature of the activity in this market, the changing profile of the market participants and Treasury market trading

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[1] SIFMA is the voice of the U.S. securities industry, representing the broker-dealers, banks and asset managers whose 889,000 employees provide access to the capital markets, raising over $2.4 trillion for businesses and municipalities in the U.S., serving clients with over $16 trillion in assets and managing more than $62 trillion in assets for individual and institutional clients including mutual funds and retirement plans. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit http://www.sifma.org.

[2] SIFMA AMG's members represent U.S. asset management firms whose combined global assets under management exceed $34 trillion. The clients of SIFMA AMG member firms include, among others, tens of millions of individual investors, registered investment companies, endowments, public and private pension funds, UCITS, and private funds such as hedge funds and private equity funds.

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practices. Ultimately, comprehensive data collection would enhance FINRA's and other official stakeholders' market surveillance and analytic efforts. However, as we note below, the reporting rules set forth in the Proposal will not capture transactions executed by certain other market participants, such as Principal Trading Firms ("PTFs") that are not otherwise registered as broker-dealers, which, as acknowledged in the Joint Staff Report on October 15, 2014, constitute a significant portion of the market.

While we are broadly supportive of the policy goals underlying the Proposal and the overall structure of the requirements, we note the following comments for your consideration.

1. Official Sector Data Repository

SIFMA and the American Bankers Association ("ABA") noted in its response to the Treasury's Request for Information (the "SIFMA Response"),[3] that they fully support increasing official sector (i.e., market and prudential regulators) access to data related to U.S. Treasury market transactions.[4] Similarly, the AMG stated in its response (the "AMG Response") that "regulators should enjoy 'comprehensive official sector access to the data, particularly with respect to U.S. Treasury cash market activity' for systemic risk oversight and mitigation purposes."[5]

Increased official sector access to secondary market data will allow regulators and policy makers to carry out their regulatory functions and allow Treasury to oversee market liquidity, resiliency, and efficiency. However, as noted in the SIFMA Response, any data collection regime should balance the data needs of the official sector against overly broad requirements on market participants that impose material costs or burdens that could be counterproductive of the goal of maximizing diversity in the marketplace and maintaining the overall deep liquidity in the Treasury market. Given these considerations, we appreciate that FINRA has focused closely on leveraging the existing framework of the TRACE system for inclusion of Treasury securities. FINRA members, generally, will have systems and procedures in place that generally can incorporate the additional reporting obligations for Treasury securities.

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[3] The SIFMA Response is available at http://www.sifma.org/issues/item.aspx?id=8589959981.

[4] Response at page 10.

[5] The AMG Response is available at http://www.sifma.org/issues/item.aspx?id=8589959982.

While generally supportive of the Proposal's underlying policy goals, we remain concerned that the Proposal will not fully accomplish such goals as it would exclusively apply to a subset of market participants (i.e., FINRA members) and therefore result in a very incomplete view of the market. We believe that there are strong merits to a comprehensive approach to official sector data reporting given the varied participants in this market. We recognize that Treasury indicated in its May press release that it will continue working with other agencies to develop a plan for collecting data from intermediary institutions who actively trade Treasury securities but are not FINRA members but are concerned that such a bifurcated approach is likely to lead to disparities and inconsistencies in reporting (and potentially regulatory) requirements across the market.[6] As a result, we urge Treasury and the Commission to coordinate the implementation date of the Proposal with the implementation date of similar requirements for non-FINRA member intermediaries in the Treasury cash market. The official sector and market participants will be best served by coordinated and harmonized reporting requirements across Treasury cash market intermediaries in order to ensure substantially complete and consistent data.

2. Non-FINRA Member Market Participants

As stated above, we are concerned that the current proposal, while a good first step, will not give a complete picture of the current Treasury market to the official sector and thus the official sector will be without a complete set of data for further analytics because of non-reporting by, for example, unregistered PTFs, banks, and unregistered trading platforms. As noted in the Joint Staff Report and the recent paper published by Promontory Financial Group, "Emerging Issues in the Functioning of the U.S. Treasury Market" ("Promontory Paper") the recent evolution of the Treasury market has included significant participation by entities not subject to FINRA reporting requirements.[7] Additionally, as Treasury's Acting

[6] Statement on Trade Reporting in the U.S. Treasury Market, available at https://www.treasury.gov/press-center/press-releases/Pages/jl0457.aspx.

[7] The Joint Staff Report states at footnote 45 with respect to Principal Trading Firms ("PTF"): "Because PTFs are privately held and generally face lighter regulation than registered broker-dealers, limited financial information is available about many PTFs, including about their financial linkages—and thus their potential to transmit risk—to traditional financial institutions." See also Promontory Paper at page 40. The Joint Staff Report is available at https://www.treasury.gov/press-center/press-releases/Documents/Joint_Staff_Report_Treasury_10-15-2015.pdf; the Promontory Paper at

Assistant Secretary Singh noted in his recent public remarks with respect to further consideration of public dissemination of Treasury market transaction data: "[I]t would be premature to develop any proposal for public disclosure before the official sector has access to and can analyze a sufficient level of Treasury trade data."[8] Without a substantially complete picture of the market, particularly without reported transaction-level data from, for example, the unregistered PTFs, this analysis would be necessarily limited and incomplete.[9]

Ultimately, we believe that Treasury and the other agencies should, through extensive consultation with all stakeholders and market participants, determine the most efficient and cost-effective way to collect a substantially complete data set that is consistent in its collection mechanisms and reporting requirements across relevant counterparties to ensure no unnecessary overlap, duplication or gaps. As such, we believe a consistent reporting regime, inclusive of all relevant market participants (i.e. unregistered PTFs, banks, and unregistered trading platforms), would make the most sense for collecting substantially complete data for official sector analysis and monitoring purposes.

3. Public Dissemination of Treasury Transactions

As the Proposal notes, FINRA is not at this time proposing to publicly disseminate the Treasury securities transaction information it collects. Furthermore, the Proposal correctly states that, while there was broad support for further official sector access to transaction data in the responses to Treasury's Request for Information, there was substantial disagreement among commenters as to the impact of public dissemination.[10] We

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http://www.promontory.com/uploadedFiles/Articles/Insights/Emerging%20Issues%20in%20the%20Functioning%20of%20the%20US%20Treasury%20Market.pdf.

[8] Remarks by Acting Assistant Secretary for Financial Markets Daleep Singh at the SIFMA Fixed Income Market Structure Seminar, May 24, 2016 ("SIFMA Remarks") (remarks available at https://www.treasury.gov/press-center/press-releases/Pages/jl0465.aspx).

[9] The Joint Staff Report describes PTFs as accounting for the largest shares of trading volume in both the cash and futures markets during the October 2014 volatility event. PTFs accounted for more than 50 percent of the total trading volume across various maturities while bank-dealers accounted for roughly 30 to 40 percent of volume in the cash market during the event. The Joint Report acknowledged that these shares of activity did not stand out as unusual relative to the periods prior to the October 2014 event. See the Joint Report at page 21.

[10] See, SIFMA Remarks by Acting Assistant Secretary Singh: "While support for official sector data collection was nearly unanimous in the RFI comment letters, support for public dissemination of Treasury

refer further to prior comments that SIFMA, AMG, and others have provided with respect to this matter.[11,12,13]

We understand, both from public statements and from discussions with Treasury officials, that consideration of public dissemination of Treasury market transaction information will be undertaken through review and analysis of data collected pursuant to the official sector reporting regime. Thus, we urge both Treasury and other official sector stakeholders to carefully consider and balance any potential benefits of public dissemination against its potential costs, including as it relates to overall market liquidity.

As noted above, we are concerned that this analysis will be undertaken while incomplete data on the market is available. We would suggest that the Treasury and the other agencies continue to engage in discussions with the full spectrum of market participants, including buy and sell side, and other stakeholders, through roundtables and formal consultations, before any decisions are made on public dissemination.

SIFMA would be willing to work with Treasury (and at the request of Treasury) and the other agencies to develop solutions to protect the important functions of the market. In order to do so, we believe that FINRA members taking part in such discussions should be provided access to historical TRACE data (on a confidential basis) to better understand and discuss the impacts of public dissemination of trade data.

4. Exemption for Repurchase and Reverse Repurchase Agreements

Pursuant to TRACE rules, a transaction must be reported if the trade or transaction "entails a change of beneficial ownership between parties."[14] SIFMA appreciates that the Proposal amends the list of exempted transactions in Rule 6730(e) to codify a long standing

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market trading data was far more mixed." (remarks available at https://www.treasury.gov/press-center/press-releases/Pages/jl0465.aspx).

[11] See the SIFMA Response, available at http://www.sifma.org/issues/item.aspx?id=8589959981.

[12] See the AMG Response, available at http://www.sifma.org/issues/item.aspx?id=8589959982.

[13] See the Promontory Paper, available at http://www.promontory.com/uploadedFiles/Articles/Insights/Emerging%20Issues%20in%20the%20Functioning%20of%20the%20US%20Treasury%20Market.pdf.

[14] Footnote 16 of the Proposal

interpretation for all TRACE eligible Securities that repurchase and reverse repurchase transactions are not reportable to TRACE.

5. Information Requirements

We assume that all applicable TRACE rules will apply to in-scope transactions in Treasuries, unless otherwise explicitly exempted. For example, we note that since the publication of the Proposal, FINRA has implemented separate TRACE rule amendments, including an amendment to Rule 6730(c) to include information on the ATS on which a reported transaction is executed and we presume that reporting for Treasury market transactions will include this item as well. We believe that this item is appropriate for this market.

6. Indicator/Modifiers

We support generally the use of well-defined modifiers to allow for the identification of trades that may be legitimately executed at prices away from the current market or which otherwise provide the public sector with a more holistic understanding of Treasury market activity. That being said, we do have concerns regarding the proposed modifier disclosures suggested in the Proposal.

The Proposal notes, "[t]he proposed rule change would require that members append a ".B" modifier to a trade report if the transaction being reported is part of a series of transactions where at least one of the transactions involves a futures contract (e.g., a "basis" trade)." We are somewhat concerned regarding the open-ended nature of this language, and would request that FINRA clarify that this modifier is intended to capture transactions where both the cash leg and futures contract relate to Treasuries transactions.[15] To the extent that the proposed ".B" modifier is intended to capture other types of transactions, SIFMA requests that FINRA provide specific examples of such trading strategies.

Further, with respect to the proposed ".S" modifier, the Proposal states:

[15] See for example ICE Futures U.S. Exchange for Related Position ("EFRP") FAQs at page 2, "An Exchange for Physical ("EFP"), also sometimes referred to as Against Actuals ("AA") or "Futures for Cash", is an off-exchange bilaterally negotiated transaction involving the simultaneous exchange of an Exchange futures position for a corresponding related cash or physical position. In such a transaction the buyer (seller) of the futures transaction is the seller (buyer) of a corresponding amount of the cash commodity, as appropriate, at a price mutually agreed upon.", available at https://www.theice.com/publicdocs/futures_us/EFRP_FAQ.pdf

> "[T]he proposed rule change would require that members append an ".S" modifier to a trade report if the transaction being reported is part of a series of transactions where at least one of the transactions is executed at a pre-determined fixed price *or would otherwise result in the transaction being executed away from the current market* (e.g., a fixed price transaction in an "on-the-run" security as part of a transaction in an "off-the-run" security).

SIFMA has a number of questions with respect to this proposal. Firstly, the language suggests that *only* those transactions where a transaction is executed away from the market be assigned the modifier. Were this to be the case, members would be required to develop procedures and surveillances to identify and flag (on a transaction by transaction basis) not only the strategy involved, but also whether one or both legs constituted potentially off market transactions at or around the time of trade execution (rather than post trade, which is often the case). For this reason, we would suggest that the modifier apply to the particular strategy highlighted (i.e. swap box scenarios) *regardless* of whether one or both legs of these trades is in fact off market. We note that the transactions would still be reported and would correctly indicate that they are part of an arrangement as described by the criteria for the ".S" modifier.

Second, we would note that (similar to the language relating to the ".B" modifier), the description of where the ".S" modifier is required in the Proposal is quite broad and could we suspect be subject to misinterpretation. There are various wholly legitimate trading combinations or strategies that potentially could be executed at prices away from the current market including:

- A curve or on-the-run/off-the-run trade in Treasuries where the price of one leg is "locked" to allow the agreed upon spread to be executed (the traditional "swap box" transaction).

- Trades where interest rate swaps are traded on spread to a Treasury which involves the passing of the Treasury hedge between counterparties at a pre-agreed upon price.

- Trades where Treasuries are traded against non-Treasury cash instruments. In these circumstances, the non-Treasury cash instrument may be purchased and sold as a spread to the Treasury.

While we highlight these particular examples, there are likely additional strategies that could lead to one or a series of transactions being legitimately executed at prices away from the current market which the industry has yet to discuss with FINRA. Given the brief comment period applicable to the Proposal as well as the significant interpretive (and potentially operational) challenges with the proposed modifiers, we urge FINRA, Treasury and other agencies to engage in further discussion with the industry prior to adoption of this Rule insofar as it relates to the modifiers towards fully understanding and describing the strategies that are intended to be covered. Ultimately, SIFMA requests that the final rule contain a clear and comprehensive list of each specific type of transactions and strategies to which the ".S" modifier is to be applied.

7. CUSIP Set Up

Under current TRACE practices, CUSIPs for TRACE Eligible securities are registered within the TRACE system by lead underwriters or the first party to transact in that CUSIP. The structure of the Treasury market, specifically the auction process, does not lend itself to this type of arrangement (there is, for example, no lead underwriter as each primary dealer is required to participate in the auction). We note that a December 22, 2009 FINRA response to comments on a proposal to add Asset-Backed Securities to TRACE states, "FINRA is securing reference data from various data sources, and will populate the TRACE system with outstanding eligible securities prior to implementation. In addition, FINRA is working with firms to facilitate the more rapid incorporation of new securities information provided to FINRA Operations during TRACE System Hours and the more rapid dissemination during the business day of such new information to TRACE participants and data vendors."[16] Similarly, we urge either Treasury or FINRA themselves to register CUSIPs for TRACE reporting for Treasuries and this should be done coincident with the announcement of an auction. With respect to outstanding securities at the time of implementation, we urge either Treasury or FINRA to register the complete roster of then-tradable CUSIP numbers.

[16] See FINRA letter responding to comments on SR-FINRA-2009-065, available at http://www.finra.org/sites/default/files/RuleFiling/p120622.pdf

8. Timestamping

Given the general current practice of clock-synchronization of one second clock-drift, trade timestamps reported in sub-second granularity may provide for inconsistent market application, a false sense of precision and may result in unwarranted regulatory inquiries based on imprecise sequencing of events. Therefore, SIFMA recommends that the requirement that members report, to the finest increment of time captured in the member's system, transactions in U.S. Treasury Securities executed electronically be removed from the TRACE requirements for Treasury securities.

Should FINRA not accept the foregoing suggestion, in light of statements provided in the Proposal regarding new Supplementary Material .04 to Rule 6730, SIFMA is seeking confirmation that a member firm is not required to implement any changes to its internal systems to provide for more granular (i.e. less than one second) timestamping in those circumstances where its regulatory reporting systems or third party vendor solutions (when taken as a comprehensive whole) do not capture or report externally on less than a one second basis. In some cases, member firms (while holistically supporting a system based on one second reporting) may have one or more internal individual upstream systems that may capture a trade in less than one second increments. SIFMA therefore requests confirmation that FINRA is not requiring members to update their systems to comply with a finer time increment (i.e. less than one second) in those circumstances.

9. Data Submissions

SIFMA requests that FINRA clarify that any re-reporting or amending of trades prior to the end of day cut-off would not count towards a firm's error statistics. The proposal states, "Some firms may find it more cost effective to report trades singularly throughout the day, while others may prefer providing trade reports at fixed intervals, allowing firms sufficient time to ensure the accuracy of the transaction information prior to submitting the information to FINRA. FINRA notes that much of the benefits of batch-reporting can be achieved by providing an end-or-day reporting timeframe." There are legitimate operational and technological reasons why firms may choose to report earlier than end of day, therefore FINRA should ensure this flexibility is maintained.

10. Effective Date

While we appreciate FINRA's efforts in the Proposal to leverage off the existing TRACE framework, if the Proposal is approved as currently written, we believe a one-year implementation period (subject to the caveat below regarding staggered implementation) would be appropriate to allow firms to develop the necessary technical changes and internal policies and procedures to implement the Proposal. Reportable Treasury market activity may occur throughout a firm and on different desks and we believe that a one-year implementation period would allow for the integration of these activities within firms' reporting apparatus. In addition, the overall size of the market with the significant increase in the number of required reports adds to the potential complexity of implementation and we believe that anything less than one-year may be too brief. Furthermore, given the pending implementation of the Consolidated Audit Trail ("CAT"), which will leverage many of the same personnel needed to implement the Proposal, FINRA should additionally consider resource constraints when developing an implementation timeline.

We note as well that firms that have not been subject to the TRACE reporting regime (i.e., those that are solely government securities dealers) will need to develop and create the systems and policies for reporting from scratch and for those firms a one-year implementation period would be needed.

As noted in the Proposal's release, any technical specifications regarding the proposed changes should be published by FINRA as far in advance as possible to allow for the appropriate lead time for development. Getting these requirements as soon as possible will be particularly crucial for those firms that are not currently reporting through the TRACE regime.

11. Staggered Implementation

The Proposal notes that FINRA anticipates staggering the implementation dates so that the general reporting requirement is implemented before members are required to include the new ".B" and ".S" trade modifiers. We support this staggered implementation approach. As suggested above, we believe that further industry consultation is required prior to finalizing the proposed rule insofar as it relates to the modifiers. We believe that further clarity is required and, ultimately, implementing the modifiers will require technology changes as well as the development of processes and procedures to ensure that this information is captured correctly.

These processes will need to incorporate activity that takes place throughout the firm and ensure that all relevant personnel and systems are integrated appropriately to reflect the new modifiers. Development of these processes to incorporate the new modifiers will necessarily take longer than the incorporation of general Treasury reporting into the existing reporting framework and we appreciate FINRA's recognition of this extended development time for the modifiers. We also suggest that FINRA indicate expressly that firms that implement the modifiers earlier than required not be penalized for mistakes or omissions until after the full implementation date. Finally, FINRA should indicate that firms will not be required to amend previously submitted transactions to include modifiers after the implementation date for the modifiers.

As discussed above, we understand that Treasury intends to review and analyze the data reported in order to make a determination whether to move forward with public dissemination of transaction-level information. We understand from our discussions with Treasury staff that this review will include analysis of the pricing of transactions and would caution that under the staggered implementation approach, Treasury will not have the benefit of the modifiers that will indicate transactions or strategies that result in executions at prices that are away from the market for valid reasons. We urge that any analysis of the pricing data be deferred until after full implementation inclusive of the modifiers as these are important data elements in making any judgments about the consistency of pricing in this market.

12. Conclusion

SIFMA appreciates the opportunity to comment on FINRA's Proposal and would be pleased to discuss any of these comments/suggestions in greater detail, or to provide any other assistance that would be helpful. SIFMA believes that the resiliency of the vital market for U.S. Treasury securities will benefit from the official sector having access to the information required by the Proposal and looks forward to working with FINRA to implement this regime.

If you have any questions, please do not hesitate to contact the undersigned at either 212.313.1124 (rtoomey@sifma.org) for Rob Toomey or 202.962.7447 (tcameron@sifma.org) for Tim Cameron.

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