

U.S. Securities and Exchange Commission
Fixed Income Market Structure Advisory Committee

**Recommendation for the SEC to Establish a
New Issue Reference Data Service for Corporate Bonds**

October 29, 2018

Introduction

The Technology and Electronic Trading Subcommittee (“Subcommittee”) of the Fixed Income Market Structure Advisory Committee (“FIMSAC”) was formed to consider, among other things, the role of price data and reference data providers in relation to the increased use of electronic trading platforms. In its deliberations, the Subcommittee focused on whether the timeliness and accessibility of bond reference data is impacting the efficiency and interoperability of the corporate and municipal bond markets. The Subcommittee considered input from the leading reference data providers, underwriters, the Financial Industry Regulatory Authority, Inc. (“FINRA”) and the Municipal Securities Rulemaking Board (the “MSRB”). In addition, the Subcommittee members themselves represent a diverse cross-section of market participants, including electronic trading platforms, buy-side organizations, quantitative trading firms and sell-side dealers, as well as well-known market observers.

Whether bond reference data is available to reference data providers, electronic trading platforms and investors in a timely manner for new issues of corporate and municipal bonds, as well as on an impartial basis, is of primary concern to the FIMSAC. Reference data includes issuer and issue identifiers and details, such as maturity, coupon, par value, payment frequency, amortization details, call schedule and convertibility, among other terms and conditions. Market participants require this information to identify bonds, settle bond trades and value bonds.

Reliable and timely reference data is necessary to support the efficient trading and settlement of corporate and municipal bonds as thousands of new issues come to market each year. Access to accurate and timely reference data is of growing importance as fixed income market participants increasingly rely on electronic trading platforms. To support the trading of newly issued bonds on electronic platforms, it is necessary that all platform participants price and trade bonds based on consistent and accurate information.

The FIMSAC realizes that differences in regulatory oversight in the municipal and corporate bond markets has led to different approaches to the dissemination of new issue data. In the municipal bond market, the MSRB established rules and processes to expedite dissemination of new issue data by municipal bond underwriters to reference data vendors. Among other rules, MSRB Rule G-34 requires underwriters for most new issues of municipal securities to submit all information required for a dealer to report and produce a customer trade confirmation to the New Issue Information Dissemination Service (“NIIDS”), developed and operated by DTC, no later than two hours after the time of “formal award” of the new issue. This information includes ten data elements required to set up an issue in the NIIDS service, as well as up to 70 additional data elements that must be populated for DTC to mark the issue as “trade eligible.” NIIDS then makes this comprehensive new issue data immediately available to reference data providers that

provide or sell such information to market participants. Any follow-up adjustments or changes to such data are also made through NIIDS.

In contrast, in the U.S. corporate bond market, neither underwriters nor issuers are currently required to submit a full set of new issue reference data to a central depository for onward public dissemination. To facilitate trade reporting and dissemination of transactions in TRACE-eligible securities, FINRA requires underwriters of an initial offering of a TRACE-eligible bond to provide certain information to FINRA prior to the execution of the first transaction of the offering (FINRA Rule 6760). However, this information is generally limited to the fields required to set up a bond on TRACE for trade reporting purposes (CUSIP number, issuer name, coupon rate, maturity, 144A status and brief description of the bond). It does not include the more detailed data required to price and settle a bond trade, such as the information needed to calculate accrued interest and net money.

No universal automated means now exists for underwriters or issuers to distribute new issue data to corporate bond market participants. The FIMSAC understands that each corporate bond reference data provider collects and disseminates new issue reference data at different speeds that vary by a few hours to several days. The delays depend on their relationships with lead managers, their timely receipt and review of the prospectuses, and the scales of their reference data businesses, among other factors. This disparity increases the likelihood that market participants will use reference data that varies based on their choice of reference data provider.

The lack of a universal means of disseminating new issue reference data for the corporate bond market is further exacerbated by the lack of regulation mandating impartial access to corporate bond reference data. As discussed above, comprehensive and timely reference data is necessary for efficient electronic trading. Without impartial access requirements, reference data providers can significantly tilt the playing field for trading platforms and market participants. If a reference database vendor refuses to license its database to all market participants and venues on commercially reasonable terms, the rejected entities must seek out and use alternative reference databases that may contain different reference data than their clients may use. The resulting confusion increases transaction costs and impedes competition in the corporate bond markets.

The FIMSAC believes that common access to timely and accurate corporate bond reference data would increase the efficiency and interoperability of the corporate bond market and promote fair competition among all market participants. The FIMSAC notes that the municipal bond market has largely avoided various reference data access problems due to the regulatory structure described above.

Recommendation

The FIMSAC believes that the corporate bond market would benefit from having a single central source of new issue reference data like that available in the municipal bond market. New issue reference data, and updates to reference data for seasoned issues, should be disseminated in real time to all reference data vendors and market participants, ensuring that everyone has access to the same data at the same time.

To that end, the FIMSAC recommends that the SEC, in conjunction with FINRA, establish a new issue data service with the following elements:

- The managing underwriter¹ of all TRACE-eligible corporate bond new issues, including registered offerings and unregistered Rule 144A offerings, would be required to send the specified new issue information specified below in Schedule A², as well any follow-up adjustments, electronically to a central database managed by FINRA;
- The managing underwriter would be required to submit the new issue information to FINRA no later than distribution of the information to any reference data vendor or other third party not involved in the offering;
- Once the central database has all the required reporting information, FINRA will make the data available in a real-time electronic format to reference data vendors and other market participants as determined by FINRA; and
- FINRA shall provide subscribers with access to the service on an impartial basis at fees determined on a commercially reasonable basis, subject to applicable regulation.

The FIMSAC believes that the implementation of its recommendation would make the valuation, trading, settlement and trade reporting of new issue corporate bonds more efficient by reducing trading errors and enhancing competition among data vendors, trading platforms and investors. The FIMSAC recognizes that the creation of this service will impose costs on FINRA and the underwriters. Based on available information, the FIMSAC believes that the costs would be small relative to the value of the service as the required information to be reported is similar to the information that underwriters already provide directly to reference data vendors. In addition, underwriters already must timely file a limited set of new issue corporate bond data to FINRA to satisfy their obligations pursuant to Rule 6760. The Rule 6760 requirement suggests to the FIMSAC that FINRA is the appropriate party to implement and manage the service.

Future Considerations

Seasoned Issues: Following initial implementation of the new issue service, the FIMSAC believes that the SEC should consider whether the service should be extended to seasoned issues. Inclusion of seasoned issues would require back-reporting for thousands of bonds, which would be costly. However, as the vast majority of issuers and their settlement agents maintain databases that describe their outstanding bonds, the cost may not be large in comparison to the value of having uniformly accurate data available to all market participants. The FIMSAC believes that seasoned issues do not currently present the market with the same concerns regarding timeliness and impartial access and, for this reason, did not include seasoned issues in the initial recommendation. However, the FIMSAC recognizes the value of having universal access to accurate reference data available for all bonds.

¹ In the absence of a managing underwriter, the obligation to submit the information should follow the waterfall set forth in FINRA Rule 6760(a).

² The FIMSAC believes (i) that the fields set forth on Schedule A should include all detailed information that is required to perform the calculations necessary to price and settle a corporate bond trade and (ii) that such fields should be objective, succinct and clear in scope so that the reporting obligation may be straightforwardly fulfilled by underwriters from both a technology and legal perspective. The FIMSAC has included a preliminary proposal of the required fields on Schedule A after discussion with certain market participants, but recommends that the final list of fields be determined by the SEC and FINRA after further analysis.

Corporate Actions: The FIMSAC believes that expanding the new issue service to include information about corporate actions also should be considered in the future. Bond reference data is not static. Many corporate actions, such as bond default, partial redemption, tender offer, exchange offer and consent solicitation, can impact the price and trading of a bond. The FIMSAC believes that the efficiency and resiliency of the corporate bond market would improve if a central database for the reporting of corporate actions on an on-going basis were available to all market participants. However, given that underwriters may not be involved in corporate actions months or years after the initial offering, the reporting obligation would more logically fall on the issuer. Such a requirement would represent a significant departure from the proposed model for the new issue service. For that reason, the FIMSAC believes that consideration of how to disseminate information about corporate actions should be considered separately.³

³ One possibility, among others, would be to expand the Form 8-K reporting requirements, at least for public issuers.

SCHEDULE A

Proposed List of New Issue Reference Data Fields

Field	Field Definition
Issuer	Name of the issuing entity of the security.
Coupon	Current interest rate of the security.
ISIN Number	The International Securities Identification Number (ISIN).
CUSIP Number	The Committee on Uniform Security Identification Procedures (CUSIP) number.
Currency	Currency in which the security was issued.
Issue Date/First Settle Date	Date the security is issued. Displays the First Settle Date, the date payment is due.
Interest Accrual Date	Date from which interest begins to accrue.
Day Count Description	The description of the day-count convention for calculating yields and/or accrued interest.
Coupon Frequency	Number of times per year interest is paid.
First Coupon Payment Date	The first coupon payment date following the initial settlement date.
Maturity	Date the principal of a security is due and payable.
Calculation Types (CALT)	The following calculation types correspond to fields in the Description (DES) function for fixed income securities, and are organized by number. Each calculation type describes a specific method used to determine the accrued interest and price/yield of the loaded security based on specified market conventions and security structures.
144A Eligible Indicator	Field will return true when the issuer's offering documentation (e.g., prospectus or offering memorandum) includes a statement to the effect that the security will be offered and sold in reliance upon Rule 144A of the U.S. Securities Act of 1933 or when other information from the issuer or another involved party indicates that the security will be offered and sold in such manner.
Regulation S Indicator	Field will return true when the issuer's offering documentation (e.g., prospectus or offering memorandum) includes a statement to the effect that the security will be offered and sold outside the United States in reliance upon Regulation S of the U.S. Securities Act of 1933 or when other information from the issuer or another involved party indicates that the security will be offered and sold in such manner.
Security Type	Brief description of the specific instrument type. For example, Corporate Note, Bond or Debenture or Other.

Bond Type	Brief description of bond type. For example, Junior Unsecured or Junior Subordinated Unsecured; Senior Secured; Secured; Unsecured; Senior Unsecured; Subordinated Unsecured; Senior Subordinated Unsecured; Other.
First Coupon Period Type	Describes the first coupon period of the bond with respect to the payment frequency.
Convertible Indicator	Indicates if the security is a convertible.
Call Indicator	Indicates whether the security has a call provision.
First Call Date	The first date on which bonds may be called for redemption.
Put Indicator	Indicates the existence of a feature that provides the bond holder the contractual option to redeem the bond prior to the scheduled maturity date.
Put Date	Date on which securities are subject to redemption by the bond holder.
Minimum Increment	The minimum increment of the face value of the bond as originally specified in the issuer's offering documentation of the security.
Minimum Piece	The minimum tradable amount or investment, as originally specified in the issuer's offering documentation of the security.