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May 16, 2018

Mr. Brent J. Fields
Federal Advisory Committee Management Officer and Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20459

RE: Fixed Income Market Structure Advisory Committee, SEC File No. 265-30

Dear Mr. Fields:

Jane Street Capital, LLC ("Jane Street") respectfully submits the following comment on the "Preliminary Recommendation for a Pilot Program to Study the Market Implications of Changing the Reporting Regime for Block-Size Trades in Corporate Bonds" adopted, as amended, by the Fixed Income Market Structure Advisory Committee ("FIMSAC") in the public meeting on April 9, 2018 (the "Recommendation").

Jane Street is one of the largest market makers in U.S.-listed fixed income ETFs. On an average day, Jane Street trades $1.6 billion of fixed income ETFs and is responsible for $765 million in creations and redemptions, which constitutes approximately 35% of daily primary market activity. Jane Street makes markets not only by buying or selling small numbers of shares around the bid or offer, but by standing ready to provide deep liquidity in large size, both on exchange and to institutions through OTC markets. As a result, Jane Street commits substantial capital and takes market risk on large fixed income ETF positions—particularly in times of fast moving markets or stressed conditions.

The existence of a fair and transparent market for corporate bonds is essential to Jane Street's ability to make effective markets in overlying ETFs. Jane Street frequently carries significant positions in corporate bond ETFs, which it hedges by creating or redeeming ETF shares and buying or selling the bonds in the underlying basket. It is critical that Jane Street be able to confidently assess the prices at which it can trade the basket bonds and that fair markets for those bonds exist. Jane Street is concerned that the Recommendation, if adopted as a pilot or a rule change, would diminish the quality of the corporate bonds market and would risk stifling innovation, including nascent electronification efforts, which have widely benefited market participants.

Overview of the Recommendation

The Recommendation suggests that FINRA undertake a one-year "pilot" modification of the TRACE dissemination rules applicable to all corporate bonds.[1] Currently, broker-dealers are required to report transaction details to TRACE within 15 minutes of execution time – including CUSIP, size and price – and TRACE publicly disseminates that information immediately upon receipt of the report. However, a so-called "dissemination cap" applies to transactions exceeding certain size thresholds. For transactions exceeding those size thresholds, TRACE "masks" the dissemination of the actual transaction size (i.e., information about the size of the trade in excess of the "dissemination cap") until several months following execution. Presently, the dissemination cap is set at $5 million for investment grade products and at $1 million for non-investment grade products.

The first prong of the Recommendation would increase the dissemination cap from $5 million to $10 million for investment grade products and from $1 million to $5 million [2] for non-investment grade products. While this would provide marginal additional transparency on trades falling within those ranges (by requiring dissemination of the precise transaction size within 15 minutes of execution), the enhancements would be negated by the more consequential second prong of the Recommendation. The second prong would eliminate the dissemination of *all* information about trades whose size exceeds the dissemination cap until *48 hours* after execution time. As a result, for two full days following execution, market participants would not have any knowledge that a trade had occurred in an investment grade product whose size exceeds $10 million or in a non-investment grade product whose size exceeds $5 million.

The Recommendation Risks Degrading the Quality of the Corporate Bond Market and the Market for Overlying ETFs

A 48-hour dissemination blackout for large trades would introduce a material amount of information asymmetry and adverse selection to the corporate bond market. Block liquidity providers would have the freedom to hedge large block trades for up to two days prior to informing the market that the large block trade has occurred. Counterparties who end up on the other side of those trades would be unaware that the market is likely poised to move against them given that the block liquidity provider would likely conduct additional hedging trades in the same direction.

Firms who regularly trade with block liquidity providers would be forced to adjust their behavior accordingly. For example, Jane Street does not act as a block liquidity provider in bonds, but it regularly utilizes those firms as a source of liquidity when trading baskets of bonds that come about in connection with its ETF creation and redemption activities. (The same firms who act as block liquidity providers also provide quotes to counterparties such as Jane Street in non-block size trades.) With the introduction of the 48-hour dissemination blackout, Jane Street would have less confidence about its relative

[1] TRACE is the sole mechanism for public dissemination of information about transactions in corporate bonds.

[2] The "Preliminary Recommendation" published by the FIMSAC Transparency Subcommittee suggested setting a $3 million dissemination cap for non-investment grade products. However, during the April 9, 2018 public meeting FIMSAC adopted an amended version of the Recommendation which set a $5 million cap.

informational position when it obtains quotes on bonds in the creation and redemption baskets because of the possibility that the firm providing quotes has recently conducted a block trade subject to the dissemination blackout or is otherwise aware that a block trade recently occurred. The increased risk for adverse selection would lead Jane Street and other ETF market makers to be less confident in their ability to evaluate the "fair value" of an ETF based on those underliers. As a consequence, ETF market makers like Jane Street would be forced to widen their markets in ETFs and would be less willing to take risk on ETFs in very large size. Ultimately, Jane Street believes that wider spreads in ETFs would impose significant costs on ETF end-users, who are in substantial part retail investors.

The Recommendation Risks Stifling Recent Innovations in the Corporate Bond Market

Introducing informational asymmetries and adverse selection would risk stifling nascent innovations in the corporate bond market, such as the increasing utilization of electronic matching systems. Trading platforms offering "all-to-all" trading functionality have increased available liquidity by enabling buy-side firms to respond electronically to requests for quotes from other buy-side firms. For example, between 2013 and 2017, "Open Trading" on the MarketAxess platform has expanded from representing 4% of total volume traded on the platform to 16%.[3] Jane Street fears that the Recommendation, if adopted as a pilot or a rule change, would make market participants less willing to provide liquidity on all-to-all systems due to the risk of being subject to adverse selection when trading with counterparties potentially holding informational advantages. (Large sell-side firms and block liquidity providers also participate on all-to-all trading platforms.) Given the relative infancy of these trading platforms, even adopting the Recommendation as a limited one-year pilot program would risk setting back these innovations dramatically. Consequently, adopting the Recommendation would risk halting recent progress toward unlocking available liquidity and reducing transaction costs for end investors, including retail investors.

The Recommendation Undermines Recent Regulatory Progress Toward Post-Trade Transparency

The Recommendation tilts against post-trade transparency, which is in stark contrast to the regulatory progress achieved in equities and derivatives markets over the past several years. While recognizing that the fixed income markets are unique in certain respects, Jane Street believes that the overall drive toward transparency has served the equity market immensely well by supporting more efficient markets and innovative approaches to liquidity provision.

An example of the different regulatory approach taken in the equity market is the 2012 rulemaking process for FINRA Rule 5270 (Front Running of Block Transactions). In response to the proposed rule filing, SIFMA issued a comment letter seeking the inclusion of a rule provision which would have lifted front running restrictions during the period after the customer's block trade was executed but before it

[3] MarketAxess, "4Q17 Conference Call and Webcast" (January 31, 2018), http://files.shareholder.com/downloads/AMDA-1P4MV7/6251862129x0x970039/CAF32118-F68B-4879-8C19-37E837ECB9D6/MKTX4Q17_Earnings_Slides_-_FINAL.pdf, at 7 (accessed May 16, 2018).

was printed.[4] (The suggestion essentially would have permitted liquidity providers to hedge block trades after the execution but prior to the print, which would have been a very similar result as would be achieved under the FIMSAC Recommendation). FINRA rejected SIFMA's proposal by clarifying that Rule 5270 is designed not only to protect the customer on any given block trade, but also to protect the interests of the market as a whole. According to FINRA's response to the SIFMA comment letter:

> SIFMA bases its conclusion on its assertion that "[t]he purpose underlying the proposed rule is, as noted in the [Proposal], that 'firms should not use their knowledge of imminent block transactions to benefit themselves at the expense of their customers.'"
>
> As an initial matter, Rule 5270... serves purposes beyond protection of the customer's block order; it also serves to prevent members from using material, non-public market information in the form of a customer's block order for their own benefit, even if the customer's order is not affected.... As noted in the Proposal, FINRA's intention behind expanding the rule to additional securities is "to make clear that misusing material, non-public market information ... is impermissible, regardless of the type of security" involved. This misuse can, and often will, have a detrimental impact on the customer's order, but it need not; it is sufficient that the misuse have a detrimental impact on members of the public.[5]

Understood in the context of regulators' ongoing, concerted efforts to require ever more timely and comprehensive trade reporting, it is plain that regulators sought a policy approach in favor of greater post-trade market transparency — even for block trades – expressly for the purpose of protecting the integrity of the market at large.

Although the corporate bond market often differs greatly from the equity market, those differences do not support taking a drastically different approach to post-trade transparency. Undoubtedly, the manual and compartmentalized nature of the corporate bond market requires that institutional customers depend on traditional liquidity providers to facilitate block trades. However, the fact that the corporate bond market lacks important features of the equity market should not serve as the basis to adopt regulatory approaches which shift away from promoting transparency, fairness and dynamism in the corporate bond market. The result would only stifle innovation and prolong the time until the corporate bond market shares laudable features of the equity market which it currently lacks.

Conclusion

For the reasons described above, Jane Street believes the Recommendation risks creating an uneven informational playing field in the corporate bond market which would dampen liquidity and undermine recent trends toward more efficient and transparent market structure. The costs of degraded market quality ultimately would be borne not only by end investors in corporate bonds, but also by investors in overlying ETFs. Therefore, Jane Street respectfully submits that the Recommendation should not be implemented.

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[4] Letter to Elizabeth M. Murphy, Secretary, SEC, from Sean Davey, Managing Director, Corporate Credit Markets Division, SIFMA, dated July 9, 2012.

[5] Letter from Brant K. Brown, Associate General Counsel, FINRA, to Elizabeth M. Murphy, Secretary, SEC, dated August 29, 2012.

Sincerely,

/s/ Matt Berger

Matt Berger
Global Head of Fixed Income and Commodities