February 14, 2014

Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: File No. SR-FINRA-2013-046 (Proposed Rule Change Relating to TRACE Reporting and Dissemination of Transactions in Additional Asset-Backed Securities) – Response to Comments

Dear Ms. Murphy:

This letter is being submitted by Financial Industry Regulatory Authority, Inc. ("FINRA") in response to comments submitted to the U.S. Securities and Exchange Commission ("SEC" or "Commission") regarding the above-referenced rule filing ("Proposal").[1]

FINRA proposes to amend the FINRA Rule 6700 Series and the Trade Reporting and Compliance Engine ("TRACE") dissemination protocols to disseminate additional Asset-Backed Securities transactions and, concomitantly, to reduce the reporting periods for such securities. FINRA also proposes to re-name as "Securitized Products" the broad group of securities currently defined as "Asset-Backed Securities," to re-define the term "Asset-Backed Security" more narrowly to mean the specific securities that FINRA proposes to disseminate in the proposed rule change, to make other definitional changes and to incorporate technical and conforming amendments to the FINRA Rule 6700 Series and FINRA Rule 7730 in connection with provisions that have expired and the amendments referenced above.

The Commission received one comment letter on the Proposal.[2] SIFMA opposed the Proposal on several grounds. SIFMA requested that FINRA not implement the proposed rule change because it believes that the Proposal would likely negatively impact liquidity in the same manner that it believes transparency negatively impacted liquidity in the TBA,[3] specified pool[4] and high-yield markets. SIFMA also referenced a recent

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1 See Securities Exchange Act Release No. 70906 (November 20, 2013), 78 FR 70602 (November 26, 2013) (Notice of Filing File No. SR-FINRA-2013-046).

2 See Letter from Chris Killian, Managing Director, Securitization, Securities Industry and Financial Markets Association, to Elizabeth M. Murphy, Secretary, SEC, dated December 17, 2013 ("SIFMA").

3 FINRA believes that SIFMA's general reference to the TBA markets means transactions in Agency-Pass Through Mortgage-Backed Securities (as defined in

quantitative study that indicates while transparency may result in a decline in price dispersion, it may also reduce trading activity. In addition, SIFMA stated that the proposed definition of "Asset-Backed Security" in proposed FINRA Rule 6710(cc) and Supplementary Material .01 should not include collateralized debt obligations ("CDO"), collateralized loan obligations ("CLO"), or Non-Agency Backed Commercial Mortgage-Backed Securities ("Non-Agency Backed CMBS"), in part because the credit analysis on these products is significantly different from that of the consumer Asset-Backed Securities; SIFMA commented that these products should be included in a proposal to disseminate other mortgage-backed securities and mortgage products. Finally, SIFMA suggested that there should be an increased reporting period for Regulation S TRACE-Eligible Securities.

FINRA believes that the dissemination of Asset-Backed Securities transactions would provide important information to market participants about current pricing and valuation of such securities. FINRA, however, agrees that the credit analysis for CDOs, CLOs, collateralized bond obligations ("CBO") and Non-Agency Backed CMBS differs from those Securitized Products backed by consumer or student loans, a lease, or a secured or unsecured receivable. Accordingly, in response to comments, FINRA proposes to exclude CDOs, CBOs, CLOs and Non-Agency Backed CMBS from the Proposal. FINRA proposes to amend several definitions in FINRA Rule 6710 to revise the types of products to be included in the additional Asset-Backed Securities transactions that would be subject to dissemination under FINRA Rule 6750 and the reduced reporting times specified in FINRA Rule 6730. Specifically, CDOs, CBOs, CLOs, and Non-Agency-Backed CMBS would not be classified as "Asset-Backed Securities" (as defined in proposed FINRA Rule 6710(cc)) and would not be subject to dissemination or reduced reporting time frames under the proposed rule change. Instead, FINRA will consider potential additional transparency in these products in conjunction with other tranched securities, such as Collateralized Mortgage Obligations ("CMO"), as appropriate.

FINRA Rule 6710(v)) traded to be announced ("TBA") (as defined in FINRA Rule 6710(u)) (generally "TBA transactions"). FINRA began disseminating TBA transactions on November 12, 2012. See Securities Exchange Act Release No. 66829 (April 18, 2012), 77 FR 24748 (April 25, 2012) (Order Approving File No. SR-FINRA-2012-020). See also Regulatory Notice 12-26 (May 2012) and Regulatory Notice 12-48 (November 2012).

[4] On July 22, 2013, FINRA began disseminating Agency Pass-Through Mortgage-Backed Securities traded in Specified Pool Transactions, which are correlated in pricing to TBA transactions. See Securities Exchange Act Release No. 68084 (October 23, 2012), 77 FR 65436 (October 26, 2012) (Order Approving File No. SR-FINRA-2012-042) and Regulatory Notice 12-56 (December 2012).

With respect to SIFMA's comments regarding the impact of the proposed rule change on trading activity, FINRA notes that TRACE has been subject to extensive academic interest and study since its inception. Studies have shown multiple benefits of transparency, including a narrowing of the bid-ask spread, reduction in trade execution costs, and improved valuation precision in mark-to-market valuations.[5]

In its comment letter, SIFMA referenced a recently published academic paper addressing liquidity in the high yield corporate bond market.[6] The study examined trading volume and the dispersion of transaction prices of corporate bonds over the period of July 1, 2002 through December 31, 2006. FINRA implemented post-trade transparency in four separate stages over this time period. The authors evaluated the change in dispersion of transaction prices and trading volume for windows of 90, 60 and 30 days before and after the implementation of each stage. For the time frame examined, the authors concluded that increases in post-trade transparency were associated with a statistically significant decrease in price dispersion in all stages, generally benefitting investors. Further, the study found no negative impact on trading activity for the first three stages of the increase in transparency, and a statistically significant decrease in trading activity only for the last stage of dissemination, which was composed of non-investment grade and inactively traded bonds. FINRA notes, however, that the study captured only the temporary adjustment in trading activity for the 90 days after implementation of dissemination, a time period when market participants may have been adjusting to the new information available. In fact, for the time period beyond 90 days for the last stage of dissemination, it appears that the trading activity of such bonds recovered to pre-dissemination levels, while the reduction in price dispersion was maintained. FINRA notes that the study is published in draft, and FINRA will continue to review the study and monitor for updates.

SIFMA also raised liquidity concerns regarding sectors of the mortgage markets that are subject to price dissemination, specifically TBA transactions[7] and specified pool transactions.[8] While there has been a decline in TBA and specified pool trading, there is

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5 See for example, among other studies, Goldstein, Hotchkiss, and Sirri, Transparency and Liquidity: A Controlled Experiment on Corporate Bonds, March, 2006; Bessembinder, Maxwell, and Venkataraman, Optimal Market Transparency: Evidence From the Initiation of Trade Reporting in Corporate Bonds, January 2005; and Cici, Gibson, and Merrick, Missing the Marks: Dispersion in Corporate Bond Valuation, May 2008.

6 Asquith, Covert, and Pathak, The Effects of Mandatory Transparency in Financial Markets Design: Evidence from the Corporate Bond Market, September 2013 (draft).

7 See supra note 3.

8 See supra note 4.

no direct evidence that transparency has contributed to the decline. In fact, TRACE data and statistics published on SIFMA's website indicate that issuance of mortgage related products have declined to the same extent or greater than trading volumes, affecting both disseminated and non-disseminated products.[9] In addition, FINRA believes that market participants have been focused on macro factors in general, and in particular the current and future impact of the Federal Reserve buying program (and any potential tapering thereof).

Finally, FINRA considers SIFMA's comments regarding increasing the reporting period for TRACE reportable Regulation S securities as beyond the scope of the proposed rule change.

FINRA believes that the SEC should approve the proposed rule change, subject to the amendments discussed herein, as consistent with the requirements of the Exchange Act. As stated in the rule filing, the dissemination of Asset-Backed Securities may enhance investors' ability to engage in meaningful price discovery to identify and negotiate fair and competitive prices for Asset-Backed Securities. In addition, the proposed dissemination of Asset-Backed Securities transaction data will allow investors to compare their executions with executions in the same and similar securities in the market and may facilitate their assessment of the quality of the executions provided to them. Similarly, additional transparency in such securities transactions may assist broker-dealers in complying with their regulatory obligations regarding best execution. Finally, for broker-dealers and institutional investors that hold positions in such Asset-Backed Securities, the proposed increased transparency may enable them to improve the accuracy of their valuation of such positions.

FINRA believes that the foregoing fully response to the issues raised by the commenter. If you have any questions, please contact me at 202-728-8200.

Sincerely,

Kathryn M. Moore /by T.R.

Kathryn M. Moore
Associate General Counsel

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9 During the fourth quarter of calendar year 2013, the issuance of mortgage-related securities declined 33 percent compared to the same period in 2012, while average daily face value traded , as reported to TRACE, declined 27 percent over the same period. See SIFMA Statistics, http://www.sifma.org/uploadedFiles/Research/Statistics/StatisticsFiles/CM-US-Bond-Market-SIFMA.xls?n=07846.