



July 27, 2016

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

Re: File Number SR-FINRA-2016-023: Proposed Rule Change to Amend the FINRA Rule 6700 Series and the TRACE Dissemination Protocols to Provide for the Dissemination of CMO Transactions

Dear Mr. Fields:

Interactive Data Pricing and Reference Data LLC appreciates the opportunity to comment on the proposed rule filing to amend FINRA Rule Series 6700 and TRACE requirements to provide for the dissemination of collateralized mortgage obligation (“CMO”) transactions (“Proposal”).¹ We support regulatory initiatives designed to improve transparency, encourage best practices, and promote just and equitable trading principles to help protect investors and the public interest, and generally believe that the Proposal achieves these goals. Our comments below include recommendations on how the Proposal should be amended to better achieve transparency in the markets for CMOs and to assist in price discovery, determination of execution quality, and valuation of securities positions.

Interactive Data Pricing and Reference Data LLC is an indirect wholly owned subsidiary of Intercontinental Exchange, Inc. (NYSE:ICE). ICE Data Services is the marketing name used to refer to the suite of pricing, market data, analytics, and related services offered by Intercontinental Exchange, Inc. and certain of its affiliates, including Interactive Data Corporation and its subsidiaries globally, including Interactive Data Pricing and Reference Data LLC, Interactive Data (Europe) Ltd. and Interactive Data (Australia) Pty Ltd.

Background

Interactive Data Pricing and Reference Data LLC provides global security pricing evaluations, reference data, risk analytics and other information designed to support financial institutions’ and investment funds’ activities, including pricing, research and portfolio management. We offer evaluated pricing for approximately 2.7 million fixed income securities, including valuation and pricing data for over-the-counter derivatives and other complex instruments such as CMOs. These offerings supplement comprehensive range of other types of reference data for more than 10 million global financial instruments, including descriptive data, data regarding corporate actions and terms and conditions for

¹ <https://www.gpo.gov/fdsys/pkg/FR-2016-07-06/pdf/2016-15918.pdf>



current and historical securities. Evaluated pricing is provided in the US through Interactive Data Pricing and Reference Data LLC and internationally through Interactive Data (Europe) Ltd. and Interactive Data (Australia) Pty Ltd.

Our comments with regard to the specifics of the Proposal include:

- We recommend that FINRA consider expanding the proportion of the CMO transaction universe subject to immediate dissemination by phasing in a series of progressively larger size ceilings for CMO transactions subject to immediate transaction-level public dissemination. In addition, we believe that the initial threshold be set at \$1 million *current* principal balance instead of *original* principal balance, in order to allow market participants and service providers to better leverage the transaction data for less active CMO instruments.
- We believe that restricting immediate public dissemination to trades smaller than \$1 million original principal value could create misperceptions among retail investors about where the next trade might occur, because trades smaller than \$1 million are typically less representative of where future CMO trades will occur than trades greater than \$1 million.
- We believe the marketplace as a whole and retail investors in particular would benefit from being able to access the most recent trade price within the periodic aggregated public disseminations.

Threshold for Immediate Dissemination is Too Low

Pursuant to the Proposal, certain CMO transactions will be subject to immediate dissemination upon receipt of the TRACE transaction report, and other CMO transactions will be subject to aggregate, periodic dissemination, depending on the size of the transaction and the number of transactions in the CMO during a given period.² The Proposal establishes a threshold for immediate dissemination of CMO transaction information at transactions valued under \$1 million (calculated based upon original principal balance)

We strongly believe that the proposed immediate dissemination threshold of \$1 million for a CMO transaction is too low to improve transparency in the CMO markets in a meaningful way and will not have the desired impact of improving price discovery and retail investor protection. The Proposal's \$1 million threshold will capture a small fraction of trading volume, while excluding a majority of transactions. For example, as noted in Table 4 of the Proposal, only 1.62% of the CMO trading volume would have been subject to immediate dissemination had the proposed \$1 million threshold been in place during the sample period (although this would have represented over 78% of transactions).³

² Federal Register, Vol.81, No. 129, page 44066: "... where the transaction value is \$1 million or more (calculated based upon original principal balance) and where there have been five or more transaction of \$1 million or more in the reporting period reported by at least two different market participant identifiers ("MPIDs")."

³ Federal Register, Vol.81, No. 129, page 44068 - 9.



We further believe that as proposed, the immediate dissemination of only CMO trades under \$1 million original principal amount could confuse retail and smaller institutional investors about the expected market value of a CMO security. Our expertise in evaluated pricing for the CMO market has consistently demonstrated to us that smaller (e.g., under \$1 million) CMO trades are typically less representative of where near-term next trading levels are typically conducted. We have observed there is typically a significantly higher correlation between prices of consecutive CMO transactions when both transactions are greater than \$1 million in value than for smaller transactions of under \$1 million. We are concerned that immediate reporting of smaller trades while excluding larger, institutional-size trades, could potentially confuse retail and smaller investors by providing transparency data that may not be indicative of underlying valuations or next trade levels for a CMO security.

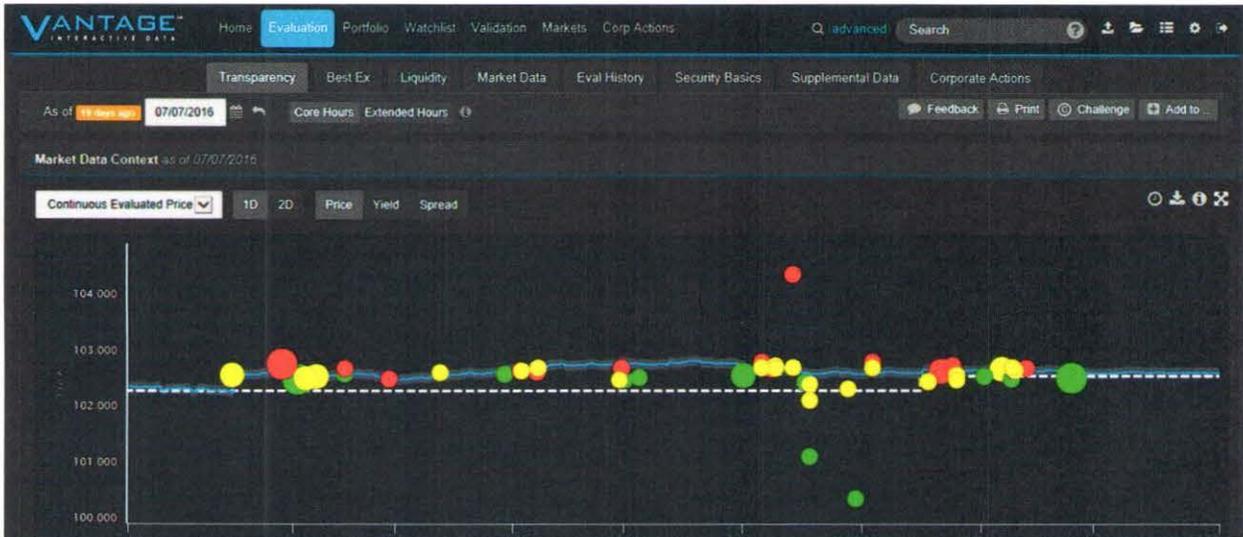
Although comprehensive data for CMO transactions that could document correlation patterns is not available to the public, we can use TRACE transaction data for investment grade corporate bonds to illustrate a similar phenomenon. The chart and table below reflect price and volume information for all trades reported on TRACE for a single day for CUSIP 037833AK6, an Apple Inc. bond with 2.40% coupon maturing in May 2023.

Intra-Day Trade Summary for APPL 2.40% 05/03/2023 (CUSIP 037833AK6) on July 7, 2016

| | Trade Size Category | | | |
|--|---------------------|---------|----------------|--------|
| | All Trades | <\$250k | \$250k - \$1MM | \$1MM+ |
| Number of Trades | 55 | 46 | 4 | 5 |
| Average Absolute Price Distance to Next Trade: | | | | |
| <i>Regardless of trade size</i> | 0.2737 | | | |
| <i>In same size category</i> | | 0.3040 | 0.0600 | 0.1532 |
| Standard Dev of Absolute Distances to Next Trade | 0.5440 | 0.5920 | 0.0300 | 0.0885 |

Source: Interactive Data Pricing and Reference Data - Vantage™
Volumes reflect principal value

Intra-Day Trade Price Sequence for APPL 2.40% 05/03/2023 (CUSIP 037833AK6) on July 7, 2016



Source: Interactive Data Pricing and Reference Data - Vantage™

Each dot in the chart represents a trade reported by TRACE on July 7, 2016, for that particular Apple Inc. bond. The dots are coded by trade size: smallest for trades less than \$250,000 principal value, mid-size for trades between \$250,000 and \$999,999 principal, and largest for trades of \$1 million principal or greater. (Dot colors correspond to sale condition, which is not discussed here.)

Note the wide price dispersion among the smallest dots, most evident in three trades displayed during the mid-afternoon portion of the intra-day chart. In contrast, the height (price level) of dots reflecting mid-size and larger trades cluster close together and close to the blue horizontal line representing the Interactive Data Pricing and Reference Data Continuous Evaluated Price.

The table presents summary statistics for the same data set presented in the chart. The two right-most columns indicate that absolute price differences between similar-size trades sequential in time averaged considerably more for the smallest trades -- \$0.3040 for per \$100 principal value for trades smaller than \$250,000 principal -- than for trades of either \$250,000- \$999,999 (\$0.06 per \$100 principal) or \$1 million or greater (\$0.1532 per \$100 principal). Standard deviations among absolute price differences show the same pattern: among the subset comprising trades smaller than \$250,000, the price difference to the next trade on the same day shows a standard deviation of \$0.5920. Among trades of \$250,000- \$999,999, and \$1 million or greater, the standard deviations of price differences are \$0.03 and \$0.0885, respectively. We believe these statistics indicate that smaller trades are typically less representative of where near-term next trading levels are typically conducted, in the case of corporate bonds; and we believe the same phenomenon holds true for CMOs.



Alternative Threshold for Immediate Transaction-Level Reporting and Phase in of Additional Immediate Reporting

Interactive Data Pricing and Reference Data LLC strongly believes that the market would benefit from immediate transaction-level public dissemination for a larger percentage of the CMO transaction universe. We recommend that FINRA consider a phase-in approach whereby the \$1 million threshold is increased in subsequent years until all CMO transactions are immediately disseminated. We also recommend that the initial threshold be set at \$1 million **current** principal balance instead of original principal balance. This recommended initial threshold would allow market participants and service providers to better leverage the transaction data for less active CMO instruments, making more data available to the public that is likely to be a better representation of future trading activity.

Alternative to the Periodic Aggregated Dissemination

The Proposal establishes a threshold for periodic, aggregated dissemination of CMO transaction information at transactions valued \$1 million or more (calculated based upon original principal balance) and where there have been five or more transactions of \$1 million or more in the reporting period reported by at least two different market participant identifiers ("MPIDs").

We believe the marketplace as a whole would benefit from being able to access the most recent trade price within the periodic aggregated public disseminations. This additional transparency would benefit retail investors who could reference that last trade price during price discovery for future trades, which could potentially better align retail and institutional execution quality.

Conclusion

We support FINRA's stated goals of investor protection, promoting greater transparency and assisting with price discovery in the CMO market. Interactive Data Pricing and Reference Data LLC appreciates the opportunity to present our views on the proposed changes to TRACE and the dissemination of CMO trade data.

Respectfully submitted,

Lynn Martin, President and Chief Operating Officer, ICE Data Services
Intercontinental Exchange, Inc.
Sole indirect shareholder of Interactive Data Corporation
Sole member of Interactive Data Pricing and Reference Data LLC