

July 21, 2017

Robert W. Errett  
Deputy Secretary of The Commission  
Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549-1090

Re: Comments Regarding File No. SR-FINRA-2017-023 – Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Reporting of Certain ATS Transactions in U.S. Treasury Securities

Dear Mr. Errett:

BrokerTec Americas LLC<sup>1</sup> (“BrokerTec” or “BTEC”) appreciates the opportunity to comment on the Financial Industry Regulatory Authority’s (“FINRA’s”) Rule Filing SR-FINRA-2017-23 (the “Proposal”), which would provide a temporary exception to permit members to report individual transactions in U.S. Treasury Securities, as required by Rule 6730 (Transaction Reporting), that occur on member Alternative Trading Systems (“ATSs”) as part of a trading session. As explained below, while BrokerTec supports the approach to reporting reflected in the exemption, we believe this approach should be made permanent, or at a minimum be kept in place for a sufficient duration to permit market participants to implement needed system changes to report transactions on an individualized basis. We believe that reporting based on a trading session rather than its individual components actually provides FINRA with greater transparency and more meaningful information, and that the reporting of individualized transactions would impose significant and costly changes to how the market operates without any commensurate benefit to transparency.

#### Brief Background on BrokerTec and the Operation of Trading Sessions

BrokerTec is a fully electronic trading platform that provides a central limit order book to the professional trading community of banks, dealers, and proprietary trading firms. On a daily basis, BrokerTec trading volume averages 100,000 trades and total notional trading activity of approximately \$150 billion (single-sided ADV).

BrokerTec allows traders to submit bids and offers through the use of a trading protocol commonly referred to as “Workup”. A trading session (or Workup) occurs upon an initial match of an aggressive and passive order (on the contra-side). Buyers and sellers join the Workup, anonymously match with each other, and execute transactions based on the initial matched trade price. The initial trade price is held for a fixed period of time after the last match on the system at that price point and the matched trade price; direction of the trade and available size on either side of the order book is advertised to all participants during the Workup. The Workup functions to reward and encourage liquidity provision in the U.S. Treasury market by giving buyers and sellers additional opportunity to transact at the initial matched trade price. It is akin to a compressed-in-time electronic negotiation of trade size at an agreed

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<sup>1</sup> BrokerTec Americas LLC is a registered broker-dealer with the U.S. Securities and Exchange Commission, is a member of the Financial Industry Regulatory Authority, Inc. ([www.FINRA.org](http://www.FINRA.org)), and is a member of the Securities Investor Protection Corporation ([www.SIPC.org](http://www.SIPC.org)). BrokerTec Americas LLC is a wholly owned subsidiary of NEX Group PLC and sits within the NEX Markets division.

price point, and is entirely different from the concept of “average pricing” common in the equity markets, where transactions that occur over an extended period of time and transact at different price points are confirmed at a single average price.

Reporting Requirements for Trading Sessions

BrokerTec supports FINRA’s efforts and believes regulatory reporting of Treasury trades in the secondary market through TRACE will provide FINRA and the official sector greater clarity as to the nature of the activity in this market. We recognize the vital importance of implementing effective and accurate transaction reporting, and as a platform with substantial daily volume in Treasury transactions, we are committed to the required reporting of transactions and working with FINRA as the new reporting regime is implemented.

However, as explained more fully below, we believe that the reporting rules should permanently permit the reporting of the results of trading sessions rather than the individual transaction components of those sessions. There are two reasons for this.

First, we believe the reporting of trading sessions provides FINRA with more transparent and meaningful information than the reporting of the individual transaction components. Under the reporting requirements, a FINRA member such as BrokerTec would report a transaction with a non-member as simply being a transaction with a “customer” without identifying that specific customer. As the illustration below shows, the identification of a single customer’s transactions in a trading session provides FINRA with better information about market and customer activity.

*Reporting Based on a Trading Session*

Time	Subscriber	Buy/Sell	Quantity (in millions)
11:34:02.000	Subscriber A (Customer)	Sell	100
11:34:02.155	Subscriber B (Customer)	Buy	10
11:34:02.483	Subscriber C (FINRA Member)	Buy	5
11:34:02.803	Subscriber D (Customer)	Buy	25
11:34:03.102	Subscriber E (FINRA Member)	Buy	5
11:34:03.277	Subscriber F (Customer)	Buy	15
11:34:03.347	Subscriber G (Customer)	Buy	15
11:34:03.652	Subscriber H (Customer)	Buy	10
11:34:03.877	Subscriber B (Customer)	Buy	10
11:34:03.888	Subscriber B (Customer)	Buy	5
11:34:03.888	Trading Session Closes		



In the above scenario, under the current aggregate reporting methodology, FINRA would know the following:

Subscriber	Buy/Sell from/to BTEC	Quantity (in millions)
Subscriber A (Customer)	Sell	100
Subscriber B (Customer)	Buy	25
Subscriber C (FINRA Member)	Buy	5
Subscriber D (Customer)	Buy	25
Subscriber E (FINRA Member)	Buy	5
Subscriber F (Customer)	Buy	15
Subscriber G (Customer)	Buy	15
Subscriber H (Customer)	Buy	10

Under this methodology, FINRA would know that a single customer sold 100, 2 FINRA Members each bought 5 and there were 5 other distinct customers (B, D, F, G and H) that purchased the remaining quantity (25, 25, 15, 15 and 10 respectively).



*Reporting Based on Individual Transactions*

Under the individual transaction methodology that would go into effect if this Proposal were to expire, our understanding is that FINRA would know the following:

Subscriber	Buy/Sell to BTEC	Quantity (in millions)
Customer	Sell	10
Customer	Sell	5
Customer	Sell	25
Customer	Sell	5
Customer	Sell	15
Customer	Sell	15
Customer	Sell	10
Customer	Sell	10
Customer	Sell	5
Customer	Buy	10
FINRA Member	Buy	5
Customer	Buy	25
FINRA Member	Buy	5
Customer	Buy	15
Customer	Buy	15
Customer	Buy	10
Customer	Buy	10
Customer	Buy	5

BrokerTec strongly believes that requiring each transaction to be reported to TRACE does not provide increased transparency, as the Proposal appears to intend, and would potentially provide misleading information as to what actually occurred during the trading session.

Under the individual transaction methodology, FINRA would be unable to easily ascertain a customer's total volume or how many distinct customers participated in the trading session. In the example above, under the individual transaction methodology, 2 customers could be participating or 16 customers could be participating. As illustrated in the aggregate example above, FINRA would know that a single customer sold 100, 2 FINRA Members each bought 5 and there were 5 other distinct customers (B, D, F, G and H) that purchased the remaining quantity (25, 25, 15, 15 and 10 respectively) providing a much clearer, more accurate depiction of what actually occurred in the session.

BrokerTec does maintain the individual matching information which could be provided to FINRA if and when requested. However, we would expect the information about the entire activity of a single customer in a trading session to be more valuable and meaningful to FINRA than individualized components which contain marginally more temporally-specific information about transaction times, but without any further information or context to understand which traders did what and when.

Second, the level of cost and effort would be substantial to modify systems and processes to report trading sessions on an individual component basis. The marketplace does not currently treat the components as separate transactions and doing so would necessitate both system changes as well as changes to how transactions are viewed and submitted by market participants. The consumption of multiple data feeds could result in greater operational risk and create a material disconnect between how trades are reported for clearing and how they are reported to TRACE, making reconciliations potentially difficult to complete.

Significant technology and messaging development will need to be completed in order for BrokerTec to comply with individual transaction TRACE reporting as described in the Proposal. Currently, aggregated messages are sent to participants through broadcasts as part of the settlement process because participants currently process and send aggregated transaction information to FICC. In addition to BrokerTec developing new binary messaging broadcasts, FINRA member participants would also need to develop and implement a way to read, process and report these new binary broadcasts while continuing to ingest and process the current aggregated messaging as required by the settlement process. Changing FIX messages to convey individual matches as well as aggregated information deviates from the industry FIX standard and has the potential to cause unintended issues such as duplicating positions. FINRA should also be aware that reconciliation between FICC submissions and TRACE reports would not be possible under this methodology.

Additionally, assessment would need to be made on our current TRACE reporting process to ensure it would be able to handle and process such an increase in the number of messages required to be sent to and received from TRACE and external participants. As noted above, on average, BrokerTec sends approximately 100,000 aggregated messages to TRACE daily. If the exemption expires, BrokerTec could potentially be reporting close to 1,000,000 messages to TRACE on an average trading day. On high volume days, that number could be much greater.

BrokerTec thus disagrees with the Proposal's implication that the technological and financial impact to market participants would be minimal. For ourselves, the impact would be substantial and we would expect it to be costly for other market participants as well. While BrokerTec recognizes and accepts that reporting regimes will necessarily entail certain costs and burdens for market participants, we do

not believe those added costs and burdens are warranted here, as they will actually result in the provision of lower-value information.

In the event FINRA were to choose to keep the exemption temporary, we would strongly urge that the duration of the exemption be extended an additional nine months to April 10, 2019. Based on the above noted technology developments, BrokerTec feels that July 10, 2018 is not an appropriate deadline due to the necessary coordination required from its participants in order to be able to accept these new messaging broadcasts. BrokerTec currently estimates that market participants will need at least six (6) months to modify existing processes to consume the new broadcasts once they have been developed by BrokerTec.

### **Conclusion**

For the foregoing reasons, BrokerTec believes that the reporting rules should permanently permit the reporting of the results of trading sessions rather than require the reporting of the individual components of the session. If that approach is not made permanent, we request that the temporary exemption be extended an additional nine months to permit the marketplace to properly develop, test, and implement the needed changes.

BrokerTec appreciates the opportunity to submit this comment, and would be pleased to meet with the Commission and/or provide additional information to assist the Commission as it works to implement regulatory reporting and transparency for the Treasury market. Please don't hesitate to contact me at [REDACTED] or at [REDACTED].

Sincerely,

A handwritten signature in blue ink, appearing to read "Andrew Weinman".

Andrew Weinman  
Chief Operations Officer, BrokerTec Americas LLC

cc: Robert L.D. Colby, Chief Legal Officer, FINRA  
Heather Seidel, Acting Director of the Division of Trading and Markets, SEC