



CENTER FOR CAPITAL MARKETS
COMPETITIVENESS

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April 29, 2019

Ms. Vanessa Countryman
Acting Director
Office of the Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Submitted electronically

Re: FINRA Proposed Rule Change to Establish a Corporate Bond New Issue Reference Data Service (File Number SR-FINRA-2019-008)

Dear Director Countryman:

The U.S. Chamber of Commerce's ("Chamber") Center for Capital Markets Competitiveness ("CCMC") welcomes this opportunity to comment to the U.S. Securities and Exchange Commission ("SEC" or "Commission") regarding the Financial Industry Regulatory Authority's ("FINRA") proposal to establish a corporate bond new issue reference data service. CCMC has serious concerns regarding the impact of the proposal on competition and market efficiency.

The proposal would diminish competition and encourage the creation of monopolistic data services, decreasing market efficiency.

Currently, multiple vendors compete to provide bond reference data and related services. FINRA has proposed expanding FINRA rule 6760 to require underwriters to submit substantially more data to FINRA as part of their "Obligation to Provide Notice" of an initial offering of a "Corporate Debt" TRACE-Eligible

security prior to the execution of the first transaction. FINRA, as the sole source provider, would then sell this data back to market participants.

In justifying its proposed rule, FINRA stated that “the quality and timeliness of reference data varies greatly across data providers.” FINRA believes the “solution” to the problem of competing vendors offering consumers a variety of products is to replace those competing services with a single monopoly provider. However, whenever there is competition, there are different providers providing goods of varying quality – whether the goods are data, shoes, or computers. Consumer choice among varying goods is not generally regarded as evidence of market failure requiring regulatory intervention.

Early access to reference data is important if the data is accurate and of high-quality. Currently, multiple vendors engage in an iterative, labor-intensive process of working directly with underwriters, issuers, and other sources to improve the quality of data. We would expect the quality of data to drop if that process gave way to a single government-backed data set. Indeed, the error rate on even the limited data sets currently collected by FINRA should give investors pause before expanding FINRA’s commercial role.

We are particularly troubled by FINRA’s announced plans that, following this new fee-based service, it expects to intervene in additional, currently competitive private markets. That would, over time, certainly discourage private investment and activity in these adjacent spaces, prompting a reduction in transparency and market efficiency.

While this Commission has promoted data-driven regulations, it is worth underscoring that this proposal provides absolutely no data to support the proposition that there is a problem, or that having a regulator replace private competitors would be the answer. Moreover, no evidence has been offered as to how a superior service would be provided by a regulator rather than the private sector.

FINRA’s proposal for a corporate bond data service is very different from the Municipal Securities Rulemaking Board’s (MSRB’s) proposal for a new issue information dissemination service (NIIDS).

Some have pointed to the MSRB new-issue service as a template for FINRA’s action. It clearly is not. The MSRB had an urgent necessity to establish NIIDS. Because of the sun-setting of an exemption, large tranches of previously exempt securities needed to be reported. It was indisputable that the existing framework of private sector participants couldn’t handle this skyrocketing volume caused by the filing exemption ending. By contrast, no similar current development justifies the timing or scope of FINRA’s proposal.

The MSRB entered into a two-year open consultative process to arrive at consensus, totally unlike FINRA’s process. MSRB named a financial services corporation owned by its principal users (DTCC) to run the facility, while FINRA operating its own service creates the core problem of a regulator taking on a conflicted commercial role. The MSRB also restricted itself to requesting data clearly essential to their task, and charged only connectivity fees. In short, the MSRB approach is very different from FINRA’s.

FINRA would have inherent conflicts of interest by mixing commercial and regulatory roles.

There is an inherent conflict of interest between regulatory and commercial roles. Policymakers should be particularly skeptical when a regulator proposes regulations that provide an exclusive commercial role for themselves. This is especially so given that FINRA would be largely unaccountable to the industry or the public. The mixture of regulatory and commercial roles should be avoided whenever possible.

The fees that FINRA would charge for data are unjustified.

Under the proposal, FINRA would redistribute underwriter data to any person or organization for a fee of \$250 per month for internal purposes only, and for a fee

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of \$6,000 per month where the data is retransmitted or repackaged for delivery and dissemination.

The proposal characterizes these fees as “commercially reasonable” and the law requires they remain “fair and reasonable.” However, there is no data or analysis justifying these fees as mandated under Exchange Act Section 15A(b). The fees are inconsistent with current law as reflected in the holdings of Box, Netcoalition, Susquehanna, the Bloomberg CTA matter and the SEC Market Data Orders of October 2018.

The proposal would increase regulatory and liability burdens for underwriters.

Underwriters would be required to provide FINRA with 26 fields of data, many unrelated to new issuance, such as ISIN and currency. Underwriters would not only have to collate, calculate and submit these new fields but also update submitted data (such as incorrectly calculated fields or other errors). Underwriters would face potential liability for errors in reporting and calculation, while there is no clear benefit for this increased burden.

Thank you for the opportunity to comment on this issue. We encourage the SEC and FINRA to maintain competition in reference data services for the corporate bond market.

Sincerely,

A handwritten signature in black ink, appearing to read 'T. Quadman', with a long horizontal flourish extending to the right.

Tom Quadman