

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-87540; File No. SR-FINRA-2019-028)

November 14, 2019

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change to Allow FINRA to Publish or Distribute Aggregated Transaction Information and Statistics on U.S. Treasury Securities

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on November 12, 2019, Financial Industry Regulatory Authority, Inc. (“FINRA”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by FINRA. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

FINRA is proposing to amend FINRA Rule 6750 to provide that FINRA may publish or distribute aggregated transaction information and statistics on U.S. Treasury Securities.

The text of the proposed rule change is available on FINRA’s website at <http://www.finra.org>, at the principal office of FINRA, and at the Commission’s Public Reference Room.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, FINRA included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

below. FINRA has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Rule 6750 (Dissemination of Transaction Information) (the “Rule”) generally provides for the dissemination of information on all transactions in TRACE-Eligible Securities³ immediately upon receipt of the transaction report,⁴ except as set forth in the Rule. Rule 6750(c) (Transaction Information Not Disseminated) specifies that FINRA will not disseminate information on a transaction in a U.S. Treasury Security, among others.⁵

Supplementary Material .01 to Rule 6750 provides that, even where a TRACE-Eligible Security is not subject to trade-by-trade dissemination, FINRA may nonetheless publish or distribute aggregated transaction information and statistics on the security, other than with

³ Rule 6710 generally defines a “TRACE-Eligible Security” as: a debt security that is United States (“U.S.”) dollar-denominated and is: (1) issued by a U.S. or foreign private issuer, and, if a “restricted security” as defined in Securities Act Rule 144(a)(3), sold pursuant to Securities Act Rule 144A; (2) issued or guaranteed by an Agency as defined in Rule 6710(k) or a Government-Sponsored Enterprise as defined in Rule 6710(n); or (3) a U.S. Treasury Security as defined in Rule 6710(p). “TRACE-Eligible Security” does not include a debt security that is issued by a foreign sovereign or a Money Market Instrument as defined in Rule 6710(o).

⁴ FINRA generally requires members to report transactions in any security that meets the definition of “TRACE-Eligible Security” to the Trade Reporting and Compliance Engine (“TRACE”), unless an exception applies. See Rule 6730 (Transaction Reporting).

⁵ “U.S. Treasury Security” means a security, other than a savings bond, issued by the U.S. Department of the Treasury (“Treasury Department”) to fund the operations of the federal government or to retire such outstanding securities. The term also includes separate principal and interest components of a U.S. Treasury Security that has been separated pursuant to the Separate Trading of Registered Interest and Principal of Securities (STRIPS) program operated by the Treasury Department. See Rule 6710(p).

respect to transactions in U.S. Treasury Securities.⁶ FINRA now is proposing to amend Rule 6750.01 to provide that FINRA may publish or distribute aggregated transaction information and statistics on U.S. Treasury Securities to provide investors and market participants with insight into aggregate trading volume for U.S. Treasury Securities. For example, after discussions with staff at the SEC and the Treasury Department, FINRA intends to publish weekly volume information aggregated by U.S. Treasury Security subtype (e.g., Bills, Floating Rate Notes, Treasury Inflation-Protected Securities, and Nominal Coupons). Further, the volume information may be grouped within dealer-to-customer, ATS and dealer-to-dealer, remaining years to maturity, or other categories.

FINRA notes that any aggregated U.S. Treasury Security data published would not identify individual market participants or transactions. In addition, FINRA would not publish aggregated transaction information and statistics by individual U.S. Treasury Security, except for the category of on-the-run U.S. Treasury Securities because there is for each week often one on-the-run security for each subtype and maturity. As is generally the case currently for the aggregated transaction information and statistics made available on other types of non-disseminated TRACE-Eligible Securities, information on transactions in U.S. Treasury Securities would be provided at no charge (separately, FINRA may determine to submit a rule filing imposing a fee). FINRA believes that the proposed rule change will benefit investors and market participants by providing insight into U.S. Treasury Security transaction volume, while maintaining the confidentiality of individual market participants and transactions.

⁶ Beginning on July 10, 2017, amendments to FINRA Rule 6730 took effect that required members to report transactions in U.S. Treasury Securities to TRACE. See Securities Exchange Act Release No. 79116 (October 18, 2016), 81 FR 73167 (October 24, 2016) (Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of File No. SR-FINRA-2016-027). See also Regulatory Notice 16-39 (October 2016).

If the Commission approves the proposed rule change, the effective date of the proposed rule change will be the date of Commission approval.

2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,⁷ which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest, and Section 15A(b)(9) of the Act,⁸ which requires that FINRA rules not impose any burden on competition that is not necessary or appropriate.

FINRA believes that the proposed rule change will benefit investors and market participants by providing insight into U.S. Treasury Security transaction volume, while maintaining the confidentiality of individual market participants and transactions. Accordingly, FINRA believes the proposal is in the public interest and will help promote transparency in TRACE-Eligible Securities.

B. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. FINRA has undertaken an economic impact assessment, as set forth below, to analyze the regulatory need for the proposed rule change, its potential economic impacts, including anticipated costs and benefits, and any alternatives considered in assessing how best to meet the proposal's regulatory objectives.

⁷ 15 U.S.C. 78o-3(b)(6).

⁸ 15 U.S.C. 78o-3(b)(9).

Regulatory Need

The purpose of the rule is described above and is consistent with the TRACE transparency initiatives.

Economic Baseline

As mentioned above, in July 2017, FINRA member firms began reporting transactions in U.S. Treasury Securities to TRACE.⁹ Currently, there is no dissemination of transactions to the public, either real-time or on a delayed basis, as member firms report trade activity in U.S. Treasury Securities to TRACE for regulatory and other official sector purposes.¹⁰ There currently is limited and fragmented publicly available information on U.S. Treasury Security transaction volume. The Federal Reserve Bank of New York publishes average daily trading volume and end-of-the-week positions of primary dealers in U.S. Treasury Securities on a weekly basis.¹¹ However, there is substantial trading volume with and among non-primary dealers. Currently there is not available, to the public or otherwise, a comprehensive source of aggregated volume data that reflects all major segments in the U.S. Treasury Securities market.

Economic Impacts

Dissemination of aggregate volume data and statistics for U.S. Treasury Securities would not impose any additional requirements on firms. Aggregate volume data would be derived from

⁹ See supra note 6.

¹⁰ FINRA makes the data available to the official sector to assist them in monitoring and analyzing the U.S. Treasury Securities markets. The Treasury Department, the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York, the Securities and Exchange Commission, and the U.S. Commodity Futures Trading Commission comprise the Inter-Agency Working Group for Treasury Market Surveillance (“IAWG” or “official sector”).

¹¹ See <https://www.newyorkfed.org/markets/primarydealers> for the definition of “primary dealers” and the weekly statistics.

trade reports submitted to TRACE. In addition, because the data would be available free of charge, FINRA does not believe that there would be any direct costs associated with the proposal for firms, investors or data consumers.

FINRA believes that publishing aggregate volume information would help market participants better understand the overall trading of U.S. Treasury Securities by providing information that could be utilized in assessing the level of liquidity over time within published categories. Thus, aggregated volume statistics should provide incremental and valuable insight into trading activity and supplement the information currently published by the Federal Reserve Bank of New York.¹² Furthermore, since the reported volume would be grouped—e.g., by security subtype, remaining years to maturity, and market segment (e.g., ATS and dealer-to-dealer or dealer-to-customer)—the data could provide a breakdown of trading activity information at a level of granularity that has not been officially available before for U.S. Treasury Securities.

FINRA also considered information leakage concerns, i.e., whether market participants' proprietary trading strategies could be discerned from publishing aggregated data; however, FINRA believes aggregation mitigates information leakage concerns by limiting the granularity of the data within descriptive groupings with no accompanying security- or market participant-level data.

Alternatives Considered

No other alternatives were considered for the proposed dissemination framework.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

¹² Some primary dealers are FINRA members.

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove such proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FINRA-2019-028 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FINRA-2019-028. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your

comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2019-028 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹³

Jill M. Peterson
Assistant Secretary

¹³ 17 CFR 200.30-3(a)(12).