

Exhibit 2b

September 23, 2019

Ms. Marcia E. Asquith  
Office of the Corporate Secretary  
FINRA  
1735 K Street, NW  
Washington, DC 20006-1506

**Re: FINRA Request for Comment on a Proposal to Require Reporting of Transactions in U.S. Dollar-Denominated Foreign Sovereign Debt Securities to TRACE (FINRA Regulatory Notice 19-25)**

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Dear Ms. Asquith:

Dimensional Fund Advisors LP (“Dimensional”) appreciates the opportunity to provide the Financial Industry Regulatory Authority (“FINRA”) with our views on the Regulatory Notice 19-25 proposal.<sup>1</sup> As a registered investment adviser that provides investment management services to mutual funds, institutional and financial adviser clients, Dimensional believes that an expansion of TRACE reporting requirements and increased transparency is beneficial to fostering a fair market for all market participants.

We support the proposed expansion of TRACE reporting requirements to collect information on trades in foreign sovereign debt securities that are U.S. dollar-denominated. In this increasingly active segment of the market, we believe this additional reporting will be useful from a regulatory standpoint and therefore beneficial to the market more generally.

Furthermore, we strongly advocate for this proposal to be expanded in the future to publicly disseminate this information in a timely manner, as is currently required for almost all other U.S. dollar-denominated securities traded in the U.S., including that of foreign private issuers. We believe that increased price transparency is always beneficial for markets and will inherently boost investor confidence in this growing market segment.

**Increased transparency benefits investors**

Since the introduction of TRACE in 2002, the U.S. bond market has grown in size to all-time highs.<sup>2</sup> Secondary market trading volume continues to rise to all-time highs with each passing year.<sup>3</sup> Bid-ask

<sup>1</sup> FINRA Regulatory Notice 19-25 (July 26, 2019) (“Notice”), available online at: <https://www.finra.org/rules-guidance/notices/19-25>.

<sup>2</sup> See SIFMA’s statistics on amounts outstanding in the U.S. bond market available at <https://www.sifma.org/resources/research/us-bond-market-issuance-and-outstanding/>.

<sup>3</sup> See SIFMA’s statistics on U.S. bond market average trading volumes available at <https://www.sifma.org/resources/research/us-bond-market-trading-volume/>.

spreads have shrunk to all-time lows.<sup>4</sup> We believe it is the transparency brought about by TRACE that helped create these conditions. In turn, we believe that this transparency has increased investor confidence, resulting in more robust capital markets.

We believe complete and immediate post-trade data dissemination for all securities in the market should be the ultimate objective of any program. This model has proven to be fair and effective in the equity markets for many decades. As a result, we are supportive of additional initiatives by FINRA to further increase transparency in the bond markets.

#### **Scope of proposed reporting requirements**

Foreign sovereign debt issuance denominated in U.S. dollars has increased substantially since 2013.<sup>5</sup> Both sovereign governments and supranational organizations have contributed to this growth by issuing a greater number of U.S. dollar-denominated bonds with a larger aggregated par value amount. As such, we agree that FINRA's inclusion of both groups in the scope of the proposed reporting requirements is appropriate.

However, we believe that the reporting timeframe and the dissemination of information could be improved. The growth of this burgeoning market segment has resulted in a total amount outstanding of \$2.3 trillion in U.S. dollar-denominated foreign sovereign debt (as of December 31, 2018). This represents approximately the same amount outstanding as the U.S. agency debt market.<sup>6</sup> We believe that the foreign sovereign debt market should be held to the same reporting standards as the similarly sized U.S. agency debt market. While the same-day reporting proposed by FINRA would certainly be a step in the right direction, we believe that the 15-minute reporting deadline currently enforced for U.S. agency and corporate bonds denominated in the U.S. dollar, should be consistently implemented across market segments. The transparency brought about by current TRACE reporting standards has increased investor confidence, leading to improved capital market conditions. We believe that the foreign sovereign debt market is no different and investors will similarly benefit from a higher degree of price transparency.

#### **Increased transparency benefits investors**

Without the public dissemination of the proposed information, though, none of the transparency benefits can be realized. FINRA recognized this when it stated in the Notice that since "the transactions will initially not be publicly disseminated, no additional . . . benefits from increased transparency will be" realized.<sup>7</sup> While Dimensional appreciates that FINRA is seeking to take a measured, incremental approach by first analyzing the new regulatory data before determining if a transparency regime would be appropriate, we

<sup>4</sup> See Bruce Mizrach *Analysis of Corporate Bond Liquidity*, FINRA Office of the Chief Economist Research Note (2015).

<sup>5</sup> See the Notice, pages 4-7.

<sup>6</sup> See the Notice, page 4.

<sup>7</sup> See the Notice, page 8.

would encourage FINRA to take the next step of publicly disseminating the transaction information as soon as possible.

We strongly advocate for the dissemination of this reported information to best serve all investors, including asset managers, institutions, and Main Street investors.

**Economic costs should be minimal**

FINRA stated in the Notice that the proposal will not “impose significant burdens and costs on firms”.<sup>8</sup> Dimensional trades with a large number of broker-dealers across a wide range of market segments, including both 1) currently TRACE-eligible securities and 2) the proposed U.S. dollar-denominated foreign debt securities. As FINRA suggests, it is also our understanding that many broker-dealers already have TRACE reporting workflows in place. We believe that the benefits to investors of improving FINRA’s market surveillance program will be significant and therefore support this proposal.

**Impacts on trading behavior and competition**

Since 2002, the price transparency and improved oversight made possible by TRACE has been overwhelmingly beneficial to investors, led to narrower bid-ask spreads, and fueled capital markets growth. We believe that an expansion of TRACE reporting to a new market segment (including non-U.S. dollar-denominated foreign sovereign debt) would support and increase these benefits.

We appreciate our regulators continuing to strive to improve the fairness of markets for all participants and are grateful for this opportunity to provide our comments. Please consider our suggestions to improve the constructive proposal for additional TRACE reporting.

Sincerely,

/s/ Gerard O'Reilly

Gerard O'Reilly  
Co-CEO and Chief Investment Officer

<sup>8</sup> See the Notice, page 2.

September 24, 2019

Marcia E. Asquith  
Office of the Corporate Secretary  
Financial Industry Regulatory Authority  
1735 K Street NW  
Washington, DC 20006-1506

**Re: FINRA Regulatory Notice 19-25: Requests for Comments on a Proposal to Require Reporting of Transactions in U.S. Dollar-Denominated Foreign Sovereign Debt Securities to TRACE**

Dear Ms. Asquith:

Bloomberg L.P. is grateful for the opportunity to provide the Financial Industry Regulatory Authority (“FINRA”) with further comments regarding the above-referenced regulatory notice request for comments (the “Notice proposal”).

### **Background**

In principle, Bloomberg agrees with the proposed expansion of the Trade Reporting and Compliance Engine (“TRACE”) reporting to include U.S. dollar denominated debt securities. We would like to add our support to the Financial Information Forum’s TRACE Working Group (“FIF Working Group”) comments and voice additional concerns over the identification of U.S. dollar denominated debt securities.

### **TRACE Expansion Identifier Considerations**

Bloomberg believes that the proposed expansion provides FINRA with the opportunity to afford broker-dealers greater flexibility to expeditiously report all TRACE eligible securities and at the same time lower their operational costs.

FINRA TRACE reliance on CUSIP identifiers for *reporting* trades imposes a significant and restrictive cost on the industry as a whole. In 2009, Bloomberg developed the predecessor to the Financial Instrument Global Identifier (“FIGI”), an open-standard identifier framework that can be used as an alternative to CUSIP for the identification of fixed income securities. In 2014, Bloomberg assigned the rights and interests in FIGI to the Object Management Group (“OMG”), a not-for-profit technology standards consortium that now administers FIGI as an open data standard. FIGI is the only existing standard identification symbology currently in production that, per the requirements set out by the OMG, is fee-free and license-free, in perpetuity, under the MIT Open Source License.

To reduce implementation costs on the consumers of TRACE data, in 2012, FINRA began to include FIGI, as well as the CUSIP and CINS identifiers with the trade data that FINRA

*disseminates* through TRACE.<sup>1</sup> FINRA accurately determined that providing the option for consumers of TRACE data to leverage FIGI, a license-free, machine-readable open data-based identifier system, could increase market transparency while reducing implementation costs by enabling market participants to use the data without the expense of licensing CUSIP numbers. The proposed expansion now enables FINRA to make a similar potential cost savings opportunity available to FINRA members when *reporting* trades to TRACE.

### Conclusion

We appreciate the opportunity to provide our comments on the Notice proposal and would be pleased to discuss any questions that FINRA may have with respect to this letter. I can be reached at [pwarms@bloomberg.net](mailto:pwarms@bloomberg.net).

Very truly yours,

*peter warms*

By: Peter Warms

<sup>1</sup> See, e.g., Financial Industry Regulatory Authority, “TRACE Corporate Bonds and Agency Debt User Guide Version 4.7” at 88, available at <http://www.finra.org/sites/default/files/TRAQS-CA-user-guide-v4.7.pdf>.

September 24, 2019

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Financial Industry Regulatory Authority  
1735 K Street NW  
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RE: FINRA Regulatory Notice 19-25

Dear Ms. Asquith,

On behalf of member of the Financial Information Forum's ("FIF")<sup>1</sup> TRACE Working Group ("Working Group"), FIF would like to thank FINRA for the opportunity to comment on Regulatory Notice 19-25 – FINRA's proposed expansion of TRACE reporting to collect information on trades in foreign sovereign debt securities that are U.S. dollar denominated. In principal, FIF members agree with the proposed expansion of TRACE reporting to include U.S. dollar denominated foreign sovereign debt securities. While FIF members expressed general agreement with the proposed enhancements to TRACE, this letter highlights FIF members' views with respect to potential systems impacts, policy considerations, and open question (see Appendix A) that should be considered prior to the promulgation of a final rule that expands upon TRACE eligible fixed-income instruments.

*Current Status and Proposed Expansion*

The Trade Reporting and Compliance Engine (TRACE) was originally developed by the National Association of Securities Dealers (NASD)(now FINRA) to allow for the reporting of over-the-counter (OTC) pertaining to eligible fixed-income securities.<sup>2</sup> Today, TRACE provides investors, broker-dealer, and regulators with access to information pertaining to almost all fixed-income trading activity, including transactional data pertaining to, *inter alia*, treasuries, corporate bonds, agency debt, and U.S. dollar denominated debt securities traded in the United States.<sup>3</sup> Currently, TRACE provides investors and other interested parties access to enhanced transactional data intended to promote greater market transparency in the fixed income market, including real-time order information, data feeds through end-of-day transaction reports, and historical statistics.<sup>4</sup>

On July 26, 2019, FINRA issued Regulatory Notice 19-25, requesting industry comment on a proposed rule change to require the reporting of transactions in U.S. dollar-denominated foreign sovereign debt

<sup>1</sup> FIF ([www.fif.com](http://www.fif.com)) was formed in 1996 to provide a centralized source of information on the implementation issues that impact the securities industry across the order lifecycle. Our participants include trading and back office service bureaus, broker-dealers, market data vendors and exchanges. Through topic-oriented working groups, FIF participants focus on critical issues and productive solutions to technology developments, regulatory initiatives, and other industry changes.

<sup>2</sup> Investopedia.com/terms/t/trace.asp.

<sup>3</sup> *Id*; see also Regulatory Notice 19-25.

<sup>4</sup> *Id*.

securities to TRACE.<sup>5</sup> FIF believes that in principal, including eligible U.S dollar denominated foreign sovereign debt within the scope of TRACE reporting will provide FINRA the means to provide investors and other interested parties with greater transparency into the fixed-income markets. However, as will be discussed, *infra*, FIF strongly suggests that FINRA fully review, assess, and seek additional industry feedback pertaining to potential implementation challenges and open questions prior the publication of a final rule proposal that seeks to expand upon the current scope of TRACE-eligible securities.

#### TRACE Expansion – Implementation Considerations

FIF recognizes and appreciates that FINRA’s proposed expansion of TRACE to include U.S dollar denominated foreign sovereign debt will ultimately provide the regulators, investors, broker-dealers and other interested parties with increased transparency into the fixed-income market. However, FIF emphasizes that with any proposed rule expansion, regulators must fully assess whether the potential costs/resource burden imposed upon broker-dealers should the rule be approved outweighs potential benefits. Following the publication of Regulatory Notice 19-25, FIF engaged in both formal and informal discussions with industry members to better understand potential impacts to systems and operations should FINRA approve any expansion of TRACE to include U.S. dollar denominated sovereign debt. Upon initial review, FIF believes that expansion of TRACE may impose some development costs and implementation challenges to broker-dealers that trade U.S. dollar denominated foreign sovereign debt. In that spirit, FIF members have identified several open questions that should be considered prior to expanding upon TRACE that may ultimately impact the costs of implementation.

#### Availability of CUSIPs and Other Identifiers

Upon initial review of Regulatory Notice 19-25 with Industry Members, FIF believes that greater information is required regarding the means by which the CUSIPs specific to U.S. dollar denominated foreign sovereign debt will be disseminated to industry members. FIF believes that greater specificity is required regarding how FINRA expects firms to report U.S. dollar sovereign foreign debt should a CUSIP or other identifier not be available at the time that the debt security is initially traded. Currently, broker-dealers must register for and be assigned a CUSIP identifier once a new security is traded in the financial markets. However, FIF understands that certain U.S. dollar denominated foreign sovereign debt, especially those transactions derived from foreign issue desks, may not contain a CUSIP at the time the security becomes TRACE eligible. If FINRA and the SEC expand TRACE eligibility to include fixed income securities that may not include CUSIPs or another such identifier, FIF respectfully requests that FINRA provide greater detail regarding how firms should report TRACE-eligible securities should a CUSIP not be assigned.

FIF further recommends that FINRA consider allowing broker-dealers the option of appending other standardized identifiers on TRACE reports should CUSIPs not be available at the time that a fixed-income security is initially traded. For example, by allowing firms the optionality of leveraging a standardized identifier such as a Financial Instrument Global Identifier (“FIGI”)<sup>6</sup> and/or an International Securities Identification Number (“ISIN”)<sup>7</sup>, broker-dealers will be afforded additional flexibility to expeditiously report U.S. dollar denominated foreign debt securities should CUSIPs not be available at the time of reporting.

<sup>5</sup> [Regulatory Notice 19-25](#).

<sup>6</sup> <https://www.openfigi.com/about/figi>

<sup>7</sup> <https://www.isin.net/isin-identifier/>

Additionally, as is specified in Appendix A, *infra*, FIF members believe that greater detail is required regarding how FINRA intends to provide broker-dealers with information regarding eligible CUSIPs in-scope of the proposed expansion. FIF believes that unlike bonds in which broker-dealers currently report to TRACE, the underwriting syndicate desk that issues U.S. dollar denominated foreign sovereign debut is likely to be completely outside of FINRA's jurisdiction. However, because many firms may not currently employ methodologies to perform reference data mapping to foreign issues that would fall under the scope of the proposed expansion, FIF recommends that FINRA strongly consider providing broker-dealers with access to a centralized data repository that will include all relevant information related to securities in scope pursuant to the proposed expansion of TRACE. FIF notes that if FINRA does not have a mechanism in place that to automatically add new bonds to a centralize securities list, many broker-dealers will likely reach out to FINRA on the same day, resulting in an inefficient process.

Should FINRA provide industry members with additional guidance required to determine whether a U.S. dollar denominated foreign sovereign security will be TRACE-reportable, additional detail is required regarding whether FINRA will provide the recommended TRACE-eligible list through a separate and distinct feed, or will CUSIP information be provided within a current feed? FIF members emphasize that clarity regarding how information pertaining to how FINRA intends to communicate CUSIP numbers of TRACE-eligible securities that may fall under the scope of the expanded rule. This information is critical as firms will be required to perform internal assessments as to whether potential systems enhancements may be required during the implementation phase if FINRA elects to expand upon the current scope of TRACE- eligible securities.

#### Execution Time/Settlement

FIF believes that the majority of the transactional activity that will result in U.S. dollar denominated foreign sovereign debt securities ultimately becoming TRACE reportable pursuant to the proposed expansion will be initiated in foreign markets (and ultimately traded on U.S. desks). Therefore, TRACE reportable time of execution data may not be easily identified by the U.S. broker-dealer who ultimately will be required to report U.S. dollar denominated foreign debt to TRACE. Additionally, trades in U.S. dollar denominated foreign sovereign debt may occur between a FINRA member and a foreign non-FINRA member, which may not be a valid U.S. business date. In many cases, broker-dealers do not permit domestic trades to be processed on a non-U.S. business date since the time of execution may occur during local time zone hours. Therefore, when the time of execution detail is processed the next business day, the time of execution will appear as though the trade occurred in the future, and may not be permitted by current system logic. In this scenario, altering the trade date will not be appropriate since it can impact the length to settlement.

FIF recommends that to allow time of execution detail to be accurately captured pertaining to new issues/transactions that initially occur on foreign markets, FINRA consider engaging in discussions with industry members to determine the availability of a cost-effective solution that will allow broker-dealers to accurately report time of execution detail. As an initial matter, FIF engaged in preliminary discussions with industry members and believe that a possible solution may involve the creation of a new modifier that can be appended to trades in fixed-income securities that initiate outside of U.S. markets. However, this solution may ultimately result in significant implementation issues, especially if the broker-dealer that trades in U.S. dollar denominated foreign sovereign debt cannot reasonably access time of execution detail pertain to trades that the broker-dealer did not initiate. Therefore, FIF strongly recommends that prior to the finalization of a rule proposal that expands upon TRACE reporting requirements, FINRA fully engage with industry subject matter experts to determine whether time of

execution detail pertaining to trades initiated in a foreign market can be accurately captured in a manner that does not impair trade settlement processes.

*Systems Development Efforts and Harmonization*

FIF notes that with any regulatory reporting protocol that seeks to provide investors and other interested parties with greater transparency into the financial markets, such protocols should incorporate rule-based reporting methodologies. Therefore, FIF recommends that to better promote consistency across all TRACE-eligible fixed-income securities, all U.S. dollar denominated bonds (whether foreign sovereign debt or otherwise) should be treated in a similar fashion. As the fixed-income market continues to expand and proliferate, providing the industry with a systematic, rules-based approach to TRACE eligibility metrics and reporting logic will allow participants to electronically handle increasing amounts of bond trading via straight-through processing. Therefore, should TRACE be expanded to include U.S. dollar denominated foreign sovereign debt, FIF strongly recommends that FINRA should apply the same logic and reporting requirements across all U.S. dollar denominated bonds.

FIF further emphasizes that should TRACE be expanded, that FINRA require that all U.S. dollar denominated bonds should be reported through to the same TRACE system/engine (*i.e.* corporates) that are currently in existence. Leveraging existing TRACE reporting infrastructures and logic should better promote consistency in TRACE reporting, as well as to better allow broker-dealers an accurate baseline to determine TRACE eligibility. Further fragmentation in the TRACE reporting regime is likely to result in the inability of broker-dealers to apply rules-based logic in determining TRACE eligibility and could impair the ability of broker-dealers to accurately and consistently report all TRACE-eligible securities. Therefore, FIF strongly recommends that should TRACE be expanded to include U.S. dollar denominated foreign sovereign debt, that FINRA leverage existing TRACE reporting infrastructure and reporting logic to report. A separate and distinct reporting systems that encompasses only U.S. dollar denominated foreign debt securities will not only promote greater inconsistency and fragmentation within the fixed-income regulatory reporting infrastructure, but will also implicate significant costs which may potentially exceed the benefits of additional transparency that the rule seeks to provide investors.

*Definitional Clarity*

Regulatory Notice 19-25 defines U.S. dollar denominated foreign sovereign debt securities as “debt securities that are issued or guaranteed by the government of a foreign country, any political subdivision of a foreign country, or a supranational entity. Supranational entities are multi-national organizations such as the International Bank for Reconstruction & Development (“World Bank”), the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the International Finance Corporation, and the European Investment Bank.”<sup>8</sup> While FIF believes that the definition of foreign sovereign debt securities do provide sufficient specificity regarding the additional securities that may be in scope should FINRA elect to expand upon TRACE reporting obligations, FIF believes additional specificity is required. Specifically, FIF members request that greater detail/examples be provided regarding what is considered a “political subdivision” under the definition. FIF believes that these additional details are critical to allow firms to better understand the full scope of debt securities that may be reportable should FINRA elect to expand upon what is currently reportable through TRACE.

<sup>8</sup> *Supra* note, 5.

Additional Recommendations

FIF recommends that prior to the finalization of a final rule that will expand upon TRACE reportable securities, FINRA perform an assessment to determine whether the reporting of U.S. dollar denominated foreign sovereign debt securities may result in cross-border rule harmonization implications that may potentially impair firms' ability to reasonably report to TRACE. Should securities in-scope pursuant to the proposed expansion of TRACE be reportable in jurisdictions outside of the United States, industry members and FINRA will need to ensure that extra-jurisdictional reporting requirements will not impair broker-dealers' ability to report through TRACE.

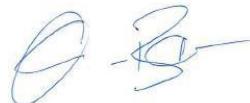
Furthermore, FIF believes that the intent of the proposed expansion of TRACE to include U.S. dollar denominated foreign sovereign debt instruments will promote greater transparency into the fixed income markets. However, should FINRA-registered broker-dealers be required to report U.S. dollar denominated foreign sovereign debt securities to another jurisdiction, FIF highly recommends that FINRA allow firms the option of exempting reporting to TRACE should a security be reported in another jurisdiction. This proposed optional exemption would prevent firms from dual reporting to FINRA and another jurisdiction's regulatory body, which will likely cause confusion regarding market sentiment conditions, trading volume, etc...

Conclusion

FIF appreciates the opportunity to comment on Regulatory Notice 19-25. FIF continues to support FINRA's focus on providing investors and other interested parties with increased transparency into the financial markets. While FIF believes that the proposed expansion of TRACE to include U.S. dollar denominated sovereign foreign debt securities will ultimately provide greater transparency into the Fixed Income market, we request that the questions and recommendations contained in this letter and associated appendix be considered during the final rule development phase. FIF believes that the assessment of and response to industry member questions/concerns will ultimately result in a more streamlined and cost-effective implementation phase should FINRA elect to expand TRACE to include U.S. dollar denominated foreign sovereign debt securities.

FIF welcomes the opportunity to discuss the considerations raised in this letter at FINRA's earliest convenience.

Regards,



Christopher Bok, Esq.  
Director, Financial Information Forum

CC: Cara Bain, Assistant General Counsel, OGC, FINRA  
Alié Diagne, Director, Transparency Services, FINRA  
Alex Ellenberg, Associate General Counsel, OGC, FINRA  
Joseph Schwetz, Senior Director, Market Regulation, FINRA

Appendix A

1. How will FINRA disseminate the list of TRACE-eligible securities/CUSIPs in scope pursuant to the proposed expansion? Will TRACE eligible CUSIPs be included within the existing TRACE eligible securities list (specific to U.S. Dollar denominated sovereign debt securities)?;
2. Because CUSIPs may not be available when a U.S. denominated foreign sovereign debt security becomes TRACE reportable, is there an opportunity for FINRA to consider other identifiers to report foreign debt securities (*e.g.* FIGI, ISIN);
3. Which TRACE reporting facility will be leveraged to report U.S. denominated debt (*i.e.* Corporates)?
4. FIF believes greater detail is required with respect to the settlement process:
  - a. Greater clarity is required regarding the time that should be reported at the time of execution;
  - b. Should firms report transactions that occur in foreign markets by leveraging the “as is” modifier?;
  - c. If a trade occurs at the end of the business day, may trades be reported on the next business day provided that the “as of” timestamp includes the correct transaction time?;
  - d. How should firms report transactions that occur as a result of a trade with a firm that is a foreign entity (*i.e.* does not have a MPID)?
5. Which Trade Modifier should be applied to each applicable trades in-scope under the proposed expansion? Will a list of trade modifiers be provided to industry members?;
6. Will U.S. Dollar Denominated foreign sovereign debt securities also be included within FINRA Rule 2232 (“Mark-Up/Mark-Down”)?;
7. Definition of U.S. Dollar Denominated Sovereign Debt:
  - a. Greater clarity is required regarding the definition of “political subdivision”;
8. Has FINRA assessed whether other jurisdictions require reporting of foreign debt securities. If so, has identified any harmonization issues that may pose implementation challenges?
9. Does FINRA anticipate disseminating a list of current foreign debt securities that may fall under the proposed rule?
  - a. Will FINRA publish an updated securities list if a foreign debt security is added or removed?

September 24, 2019

*Submitted electronically to: [pubcom@finra.org](mailto:pubcom@finra.org)*

Ms. Marcia E. Asquith  
Office of the Corporate Secretary  
FINRA  
1735 K Street, NW  
Washington, DC 20006-1506

**Re: RN 19-25: Reporting of Transactions in U.S. Dollar-Denominated Foreign Sovereign Debt Securities to TRACE<sup>1</sup>**

Dear Ms. Asquith,

SIFMA<sup>2</sup> is pleased to respond to FINRA's Regulatory Notice 19-25 ("RN") on proposed TRACE reporting requirements for U.S. dollar denominated foreign sovereign and supranational securities. SIFMA members are active participants in fixed-income markets, including the markets covered by the RN, and view this proposal with great interest.

The RN includes the proposal that FINRA-member broker-dealers generally be required to engage in same-day TRACE reporting for USD-denominated foreign sovereign and supranational trading (referred to in this letter as "sov/supra"). FINRA would not disseminate these reports. FINRA indicates that reporting would allow it to better supervise these markets.

#### **A. Considerations for the Reporting of Transactions**

SIFMA members understand FINRA's desire for regulatory reporting of transactions in these securities for the purposes of its supervisory activities, however, we believe it is important to recognize that the nature of these markets will not result in FINRA receiving comprehensive

<sup>1</sup> The RN is available here: <https://www.finra.org/rules-guidance/notices/19-25>

<sup>2</sup> SIFMA is the voice of the U.S. securities industry. We represent the broker-dealers, banks and asset managers whose nearly 1 million employees provide access to the capital markets, raising over \$2.5 trillion for businesses and municipalities in the U.S., serving clients with over \$18.5 trillion in assets and managing more than \$67 trillion in assets for individual and institutional clients including mutual funds and retirement plans. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA).

information regarding trading in these markets. In contrast to most other TRACE-eligible markets, a significant amount of trading in sov/supra debt does not occur at FINRA-member broker dealers, as a significant proportion of trading occurs off-shore and by non-US entities. Accordingly, FINRA will not get the full picture of market activity. This could lead to regulatory confusion, needless inquiries, or other inefficiencies.

We believe it would be beneficial for FINRA to discuss with market participants how sov/supra trading is executed by FINRA-member firms, their foreign affiliates and other market participants prior to implementing the proposed rule-changes so that the supervisory regime may be tailored to the market and the unique role member-firms play within it. In some ways this is a similar issue to that in the U.S. Treasury market where a significant proportion of volume is traded outside of the broker dealer community. This gap in visibility weakens the utility of the data for supervisory activity and the drawing of conclusions based on it.

We have a number of additional questions and concerns related to the RN that FINRA should clarify or otherwise address.

- *Defining the Scope*

FINRA proposes to extend the definition of “TRACE-Eligible Security” to “Foreign Sovereign Debt Securities” – a term which has yet to be defined but which is to closely track the same term currently used in Reg ATS.<sup>3</sup> Elsewhere in the RN FINRA indicates that such TRACE reporting will extend to “debt securities that are issued or guaranteed by a government of a foreign country, any political subdivision of a foreign country, or a supranational entity.” In this regard, our members request that FINRA provide significant and specific guidance as to which types of issuers would meet these standards.<sup>4,5</sup> For example, members seek specific guidance as to what would constitute a government “guarantee” and parameters around in-scope “political subdivisions”.<sup>6</sup>

It is worth noting that, as FINRA knows, there have been historical challenges for FINRA members in determining which foreign-issued securities are TRACE eligible (such as Reg S securities which are traded subsequent to applicable seasoning periods). Challenges have also surfaced in supplying required information to FINRA so that seasoned Reg S securities become available for reporting in the TRACE system (since U.S. firms may not have been part of the distribution of the issuance). Given that the proposed rule change will likely result in more of these challenges as the number of foreign-issued TRACE-eligible securities will increase substantially, FINRA should be cognizant of the strains placed on members when designing its related supervisory structure/program. SIFMA would be pleased to facilitate a discussion for FINRA and its members on this issue.

<sup>3</sup> RN Footnote 5.

<sup>4</sup> It is SIFMA’s position is that none of these “Foreign Sovereign Debt Securities” are issued by “foreign private issuers” as defined in Rule 405 of the Securities Act or Rule 3b-4(c) of the Exchange Act. For the avoidance of doubt, FINRA should confirm this.

<sup>5</sup> We also note that the definition FINRA has proposed for “Foreign Sovereign Debt Securities” defines the scope of that term without regard to the nature of the issuance (registered, Reg S, or otherwise) such that all securities issued by these issuers are TRACE reportable. FINRA should clarify this if it disagrees or confirm our view if it agrees.

<sup>6</sup> As FINRA notes, currently members are not required to TRACE report the securities of issuers who are entitled to register securities under Schedule B. It is often unclear to members which issuers would qualify under Schedule B however. While the SEC has historically been asked to provide No Action guidance with respect to a range of development banks or other issuers who are closely aligned with or identified with a sovereign, to the extent that an issuer has not sought such No Action then members would be required to conduct their own analysis on a case by case basis.

- *Security Identifiers*

As we have discussed in previous comment letters, the lack of consistent availability of CUSIP numbers presents a further operational challenge for members.<sup>7</sup> In the case of sov/supras, we believe this problem is more prevalent. Obtaining a FINRA identifier where a CUSIP is not used, while a solution, is neither efficient nor automatable. We believe the superior solution is for FINRA to allow for the submission of ISINs, which are broadly available when a CUSIP is not used.

- *Implementation Timelines*

Given that updated rules suggested by the RN would mandate new operational requirements to markets not currently impacted by TRACE, we are pleased to see FINRA proposing end of day reporting. We believe this is appropriate. We would note in a similar vein that FINRA should also provide ample time for firms to program their systems to automate the reporting. We believe a lead time of no less than one year, and ideally 18 months, would be sufficient.

## **B. Considerations with Respect to Potential Public Dissemination**

This proposal requests comments on the reporting of dealer trades in these securities to FINRA. However, given the path of other markets through TRACE, our members also considered the prospect that rulemaking would eventually be expanded to require that these trades be publicly disseminated. In summary form, we believe there are several potentially significant complications and consequences regarding dissemination of sov/supra transactions in anything approaching a real-time nature, and do not believe the benefits outweigh the risks. We believe this requires FINRA to approach this idea very carefully, involving not only the U.S. based buyers and sellers of the bonds but also the sovereign issuers and regulators who will be impacted by changes in their markets.

- *The Need to Solicit Feedback from Foreign Sovereigns, Supranationals and their Market Regulators*

The most important distinction between sov/supra markets addressed by this RN and those otherwise included in the TRACE requirements (ex-U.S. Treasury) is that instead of a corporate entity issuing securities to fund its business, the issuer is a country or political subdivision issuing securities to support its fiscal policy, domestic agenda, or other social programs. To the extent that regulatory changes here in the U.S. impair the execution, secondary pricing, or liquidity of an issuer's securities, the effects could very well be felt by the country itself through an impact on the execution of its fiscal policy or other programs. This is very different than the situation faced by a corporate issuer that would be able to respond to financing cost changes through price changes or adjustments to supply chains, etc.

<sup>7</sup> See, e.g., SIFMA letter re: Corporate Bond New Issue Reference Data, available here [https://www.sifma.org/wp-content/uploads/2019/06/CorpBondNewIssue\\_Sifma.pdf](https://www.sifma.org/wp-content/uploads/2019/06/CorpBondNewIssue_Sifma.pdf), at 3.

Additionally, USD sovereign markets are not homogeneous and the impact on each may be more or less significant. Of the 116 issuers identified by FINRA,<sup>8</sup> larger in-scope issuers and their markets can be very different from smaller issuers and their markets. Indeed, within the 5 largest issuers identified in the RN (Canada, Argentina, South Korea, France and Sweden)<sup>9</sup> there are very different economic situations driving different outcomes for related securities markets. In addition, some jurisdictions have existing regulatory reporting and transparency requirements in place. This of course makes it important for FINRA to consider the differing needs of each type of market. Much like was done for securitized products, FINRA should consider different approaches for different sectors of the market if it moves to proposing trade dissemination.

Further, we believe that FINRA should discuss the prospect of dissemination with some of these foreign issuers, including both large G10 issuers and some smaller emerging market nations and supranational organizations. We believe that various constituents in other countries, including finance ministries and key regulators, would view this proposal with great interest.

- *The Risks to Liquidity*

As we have discussed, sov/supra markets are different from the other markets subject to TRACE reporting and share similarities with the Treasury market (i.e. the issuance of these securities is how finance ministries execute fiscal policy and their domestic policy agendas). We believe that, as we have seen in other markets, there is a likelihood that public dissemination could impair liquidity in these markets. Given the limited size of many of these markets, members are concerned that it would be unlikely that transaction counterparties could remain anonymous. There is simply not enough volume in some markets to provide that protection. Second, our members believe that price transparency is at appropriate levels today. As a general matter, the USD sov/supra markets are small and involve transactions among institutional investors who have access to effective sources of pricing information. We believe these markets generally have very low levels of retail participation. The traditional motivation to provide price transparency to retail investors, who are generally less able to access the multiple sources of pricing that institutional investors can find, is not as present here. Accordingly, the justification for imposing policies that may harm institutional liquidity because they provide some benefit to retail investors is not as relevant.

FINRA should also consider the incentive effects of dissemination. As we noted, trading is geographically dispersed in these markets. Will market participants shift the location of trade execution to avoid transparency in whole or in part for certain size trades (e.g., block trades)? The impact could be that the USD sov/supra markets increasingly move offshore and FINRA members see decreased trading activity. Our members have expressed concern regarding these issues.

- *The Risks from an Incomplete Dataset*

Further, as discussed above, trading in sov/supras is distributed internationally, with TRACE-reportable U.S. activity making up only a portion of global activity. Any analysis of the impact of public dissemination must include a review of whether such an incomplete dataset could be misleading to recipients of disseminated data.

<sup>8</sup> RN at 4.

<sup>9</sup> RN at 5

- *The Risk of Complications with Current Rulemaking Efforts*

We also note that the issue of public dissemination is currently being debated in the U.S. regarding Treasury securities. Treasury transactions are not disseminated at this time, and there is an active debate as to the merits of doing so.<sup>10,11</sup> We note that some of the issues present in the Treasury market – including the impacts on fiscal policy, and concerns around an incomplete dataset -- are also present here, as we have discussed. Adding another asset class with its own unique circumstances and various liquidity profiles to this debate at this point could potentially further confuse the analysis. Furthermore, FINRA is currently exploring the structure of a pilot program in the corporate markets aimed at testing whether changes to block trade dissemination could improve liquidity in that sector. We believe that there may be valuable lessons learned from that exercise and it would advise FINRA to evaluate the results before imposing dissemination regimes on additional markets.

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We appreciate this opportunity to provide input to FINRA. We would welcome further opportunities to discuss our comments, at your convenience.

Regards,



Christopher B. Killian  
Managing Director  
Securitization and Corporate Credit

<sup>10</sup> SIFMA has provided views on this issue, see, e.g., *SIFMA Letter to the Treasury Department*, <https://www.sifma.org/wp-content/uploads/2017/05/sifma-submits-comments-to-the-treasury-in-response-to-rfi.pdf> at 11.

<sup>11</sup> On September 23, 2019, Treasury Deputy Secretary Justin Muzinich indicated that Treasury's view is that aggregated disclosure is an appropriate path forward. See his remarks at the 2019 US Treasury Market Structure Conference here: <https://home.treasury.gov/news/press-releases/sm782>.