

U.S. Securities and Exchange Commission
Fixed Income Market Structure Advisory Committee

**Recommendation Regarding FINRA Proposal to Establish a Corporate Bond
New Issue Reference Data Service**

June 11, 2019

Submitted Electronically

Ms. Vanessa Countryman, Acting Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Re: Notice of Filing of a Proposed Rule Change to Establish a Corporate Bond New Issue Reference Data Service (Release No. 34-85488; File Number SR-FINRA-2019-008)

Dear Ms. Countryman:

The Fixed Income Market Structure Advisory Committee (“FIMSAC”) is grateful for the opportunity to provide the Securities and Exchange Commission (“SEC” or “Commission”) with its comments regarding the above-referenced proposed rule change (“FINRA Proposal”). FIMSAC submits this letter in support of the FINRA Proposal in its current form. FIMSAC also feels compelled to respond to certain letters submitted to the Commission that express reservations about the FINRA Proposal.

I. Introduction

At its October 29, 2018 meeting, FIMSAC unanimously voted in favor of recommending the creation of a centralized and widely accessible database containing specific data elements for newly issued corporate bonds that would make the valuation, trading, settlement and trade reporting of new issue corporate bonds more efficient (the “Recommendation”). FIMSAC believed that the corporate bond market would benefit from a universal means of disseminating new issue reference data and that such a service would reduce trading errors and enhance competition among data vendors and trading platforms. In particular, the recommendation called for FINRA to require managing underwriters of all TRACE-eligible corporate bond new issues to send to FINRA select data elements. The recommendation further called for FINRA to make this reference data available in a real-time, electronic format on an impartial basis at commercially reasonable fees (the “Service”).

Reliable and timely reference data is necessary to support the efficient trading and settlement of corporate bonds as thousands of new issues come to market each year. Reference data includes issuer and issue identifiers and details, such as maturity, coupon rate and coupon frequency, among other terms and conditions. Without the core set of reference data fields that identify a bond, trading platforms are unable to list a bond for trading. An additional limited set of reference data fields is required for market participants to accurately value the bonds and settle trades. Furthermore, to support the trading of newly issued bonds on electronic platforms, it is necessary that all platform participants are able to price and trade bonds based on consistent and accurate information.

The immediate hours and days following a bond offering are typically a highly active trading period. Given that there are thousands of new issues each year, brought to market by a large number of underwriters, there are significant challenges in ensuring that accurate information is reported to the variety of corporate bond reference data providers. Furthermore, reference data providers are reliant on the managing underwriter of a new issue to provide them with the relevant data, prospectus or similar information in a timely fashion. For these reasons, the FIMSAC believed there should be a regulatory interest in ensuring that there is accurate reporting, and impartial distribution, of the minimal amount of terms to support the trading of newly issued corporate bonds.

There is no current regulation or commercial imperative that requires underwriters or issuers to provide the pertinent information about a new issue to all reference data providers at the same time. The research of the Technology and Electronic Trading Subcommittee (“Subcommittee”)¹ of FIMSAC indicated that the immediate trading of newly issued bonds is hampered by the lack of broad distribution of the required data fields--either because underwriters have a historic practice of providing new issue data to one data provider over others or because leading data providers can restrict access to some market participants that would otherwise license their reference data. In practice, each reference data provider is able to collect and disseminate new issue reference data at different speeds that vary by a few hours to several days. The ripple effect is that some of the leading e-trading venues are not able to offer trading in newly issued bonds on a timely basis, harming liquidity and competition in the corporate bond market.

These factors were the basis for FIMSAC’s belief that the existing market structure for new issue reference data was flawed. FIMSAC further considered that focused regulatory intervention in the form of a centralized Service would improve this market structure without harming existing competitive dynamics.

II. The FINRA Proposal

On March 27, 2019, FINRA filed the FINRA Proposal with the SEC to implement FIMSAC’s Recommendation. In line with FIMSAC’s Recommendation, the FINRA Proposal would amend FINRA Rule 6760 to add a number of new data fields, in addition to those already specified by the rule, which must be submitted to FINRA for new issues of corporate debt securities. These data fields reflect all but one of the fields that were included in the FIMSAC Recommendation, as well as six additional fields identified by FINRA during their industry outreach².

FIMSAC has reviewed the FINRA Proposal, including each of the twenty-six final data fields included by FINRA. As set forth on Schedule A hereto, FIMSAC has analysed each of the fields and has substantiated the inclusion of those fields that we believe serve the stated purpose of making the valuation, trading, settlement and trade reporting of new issue corporate bonds more efficient, as well as several other

¹ The Subcommittee considered the recommendation during approximately ten meetings over a seven-month period, including inviting five leading corporate bond reference providers to provide relevant information to the Subcommittee. On September 5, 2018, the Subcommittee had a telephonic meeting with senior executives from Bloomberg L.P., IHS Markit, ICE Data Services, London Stock Exchange Group and Thomson Reuters. The Subcommittee and the representatives from the data providers shared their experiences with accessing reference data related to new issuances. The Subcommittee also discussed each reference data provider’s policies regarding providing market participants with access to their data products.

² FIMSAC had included a preliminary proposal of the required fields in its Recommendation, but had recommended that the final list of fields be determined by the SEC and FINRA after further analysis.

fields that we believe serve this same purpose. In addition, in Schedule A we recommend combining the Maturity and Perpetual Maturity Indicator into one field named Maturity Date and combining the 144A Eligible Indicator and the Regulation S Indicator into one field named Series. Highlighted in gold are fields we recommend combining, the new fields we are proposing, and the fields proposed by FINRA that were not included in the FIMSAC Recommendation.

III. FIMSAC's Recommendation will not Displace any Current Reference Data Product

FIMSAC based its Recommendation on the understanding that the Service will not displace or reduce private sector competition. None of FIMSAC's members viewed the Service as a substitute for their existing reference data providers or their products. This view is implicit in the language of the Subcommittee's initial recommendation to FIMSAC, which called for the managing underwriter to submit the new issue information to FINRA no later than the distribution of the information to any reference data vendor or other third party not involved in the offering.

It was important to FIMSAC's deliberations that the recommended Service did not erode the competitive forces currently at play in the reference data market. For this reason, FIMSAC prefaced its recommendation on requiring underwriters to report only the limited set of information that would be required to value, trade and settle a newly issued corporate bond trade. FIMSAC considered that this limited set of data could not possibly supplant the need for a full reference database that is available only from commercial reference data providers. Moreover, the proposed Service is not exclusive; underwriters would not be prohibited from providing the same or enhanced data to reference data vendors as they currently do under existing arrangements.

IV. FINRA is the Most Logical and Impartial Choice to Operate the Service

Commenters have questioned whether a centralized reporting mechanism would provide a more accurate, complete or timely service than private sector providers. The Subcommittee considered various alternatives to FINRA in its deliberations, including private sector providers, and settled on FINRA because it believed that FINRA was the most logical³ and impartial choice.

The U.S. secondary trading markets have greatly benefitted from FINRA's establishment, management and expansion of TRACE. The increased transparency that resulted from TRACE could only have occurred through regulatory mandate of a centralized reporting mechanism. FIMSAC believed that the Service would be a logical extension of TRACE and, accordingly, limited its Recommendation only to TRACE-eligible bonds. FIMSAC also heard from underwriters that it would be relatively easy for them to report the new issue reference data to FINRA given their current established reporting mechanisms to TRACE and that underwriters could thereby avoid the duplicative effort involved in sending the same data multiple times to various reference data providers.

Importantly, FIMSAC believes the operator of the Service must be impartial and prepared to provide the collected data to all market participants on objective and non-discriminatory terms. FIMSAC believes this can be best accomplished through a centralized reporting role for FINRA or a similar regulatory body. If a private sector provider was chosen to provide the Service, it would require extensive

³ As noted in the Recommendation, underwriters already must timely file a limited set of new issue corporate bond data to FINRA to satisfy their obligations pursuant to Rule 6760.

regulation in order to protect the market, including the non-chosen reference data providers, from the conflicts of interests that have persisted in the market for years.

FIMSAC believes it is important for the SEC to understand that several of the largest corporate bond reference data providers own, or are affiliated with, electronic trading platforms for corporate bonds. In its consideration of the Recommendation, FIMSAC heard from market participants that were concerned that certain of these large reference data providers have in the past, and could in the future, manage their data and trading businesses in a coordinated fashion--refusing to license their leading reference data products to trading platforms that they deem to be competitive with their own.⁴ As such, FIMSAC would be concerned by any alternative construct to the FINRA Proposal that would give increased market power to a single commercial data provider without a commensurate level of regulatory oversight. Data vendors, conflicted by competing commercial interests, cannot be in a position to determine who has access to the data necessary to value, trade and settle a newly issued corporate bond.

FIMSAC also considered that the NIIDS system operated by DTCC for municipal bonds is a positive comparison for the proposed Service. FIMSAC notes that the creation of NIIDS benefited market participants, while not harming municipal bond reference data providers. Even today, years after NIIDS was established, DTCC is not competing with reference data providers to be the primary provider of municipal bond reference data to market participants.

V. Conclusion

FIMSAC's research, as well as comment letters provided the Commission, reflects that most leading reference data vendors face issues and delays obtaining access to timely new issue reference data from underwriters. Given the many requirements imposed on underwriters at the time of an offering, it is evident that underwriters do not have an incentive to provide new issue reference data simultaneously to multiple data vendors absent a regulatory mandate to report to a central database. For the reasons set forth above, FIMSAC is therefore in favor of the FINRA Proposal in its current form.

Yours sincerely,

Securities and Exchange Commission Fixed Income Market Structure Advisory Committee

cc: The Honorable Jay Clayton, Chairman
The Honorable Robert J. Jackson Jr., Commissioner
The Honorable Hester M. Peirce, Commissioner
The Honorable Elad L. Roisman, Commissioner
Brett Redfearn, Director, Division of Trading and Markets
Robert W. Cook, President and Chief Executive Officer, FINRA

⁴ FIMSAC believes that the SEC could easily establish the extent to which reference data providers have refused to license corporate bond reference data to trading platforms during the last twenty years.

SCHEDULE A

Proposed List of New Issue Reference Data Fields

Proposed Data Field	Description	Currently Mandatory, Voluntary, or New Field	Recommendation	Rationale	Notes
Issuer*	Name of the issuing entity of the security.	Mandatory	Mandatory	Settlement/Valuation	This field is necessary to the investor. The investor needs to know the issuing entity of the bond.
Coupon*	Current interest rate of the security.	Mandatory	Mandatory	Settlement/Valuation	This coupon rate is needed for the accrual/interest calculation/cash flow table
ISIN Number	The International Securities Identification Number (ISIN).	New Field	Mandatory	Settlement	This is the international identifier. ISIN's are 100% necessary for non North American securities.
CUSIP Number*	The Committee on Uniform Security Identification Procedures (CUSIP) number.	Mandatory	Mandatory	Settlement	This is a North American identifier. This identifier is necessary when trading in NA.
Currency	Currency in which the security was issued.	New Field	Mandatory	Settlement	This field is necessary to determine the currency of what the principal, interest, or premium that will be paid or received at the time of a distribution or settlement of a trade.

Proposed Data Field	Description	Currently Mandatory, Voluntary, or New Field	Recommendation	Rationale	Notes
Issue Date / First Settlement Date	Date the security is issued. Displays the First Settle Date, the date payment is due.	Voluntary	Mandatory	Settlement	This field is required in order to populate the first settlement date of the bond which could be anywhere from one business day to 30 business days depend on the bond security type. When trading new issues this is a required field in order to settle the bond with the counterparty.
Interest Accrual Date	Date from which interest begins to accrue.	New Field	Mandatory	Settlement/Valuation	This field is necessary in order to start the cash flow period of the coupon.
Day Count Description	The description of the day-count convention for calculating yields and/or accrued interest (e.g., 30/365, actual/365, etc.).	New Field	Mandatory	Settlement/Valuation	This field is needed to calculate the purchase accrued and coupon of the security.
Coupon Frequency	Number of times per year interest is paid.	Voluntary	Mandatory	Settlement/Valuation	This field is needed to determine how often the coupon payment is made within the year. This is essential to calculate the purchased accrued and coupon payments.

Proposed Data Field	Description	Currently Mandatory, Voluntary, or New Field	Recommendation	Rationale	Notes
First Coupon Payment Date	The first coupon payment date following the initial settlement date.	Voluntary	Mandatory	Settlement/Valuation	This field is needed to determine whether the coupon will have a short or long stub on its first coupon payment. If this field is not populated there is a strong possibility that your purchase accrued and coupon payments will be off for the first year of trading.
Maturity Date*	Date the principal of a security is due and payable.	Mandatory	Mandatory	Settlement/Valuation	This field is necessary in order to understand when the bond is due to pay back its principal at par. This field is used to back populate accruals and cash flow table. We have combined the "Maturity" and "Perpetual Maturity Indicator" fields into one field re-named "Maturity Date".

Proposed Data Field	Description	Currently Mandatory, Voluntary, or New Field	Recommendation	Rationale	Notes
Series*	Field will designate whether the issuer's offering documentation (e.g., prospectus or offering memorandum) includes a statement to the effect that the security will be offered and sold in reliance upon Rule 144A of the U.S. Securities Act of 1933 or when other information from the issuer or another involved party indicates that the security will be offered and sold in such manner OR the issuer's offering documentation (e.g., prospectus or offering memorandum) includes a statement to the effect that the security will be offered and sold outside the United States in reliance upon Regulation S of the U.S. Securities Act of 1933 or when other information from the issuer or another involved party indicates that the	Mandatory	Mandatory	Settlement	This field is necessary to distinguish between 144A for QIB eligible investors and Reg S for non US entities. We have combined the "144A Eligible Indicator" and "Regulation S Indicator" fields into one re-named "Series".

Proposed Data Field	Description	Currently Mandatory, Voluntary, or New Field	Recommendation	Rationale	Notes
	security will be offered and sold in such manner.				
Bond Type	Brief description of bond type. For example, Junior Unsecured or Junior Subordinated Unsecured; Senior Secured; Secured; Unsecured; Senior Unsecured; Subordinated Unsecured; Senior Subordinated Unsecured; Other.	Mandatory	Mandatory	Valuation	This is significant because the bond classification actually dictates the payout order in the event the issuer defaults. This field determines the liquidation preference which specifically effects the valuation of the security.

Proposed Data Field	Description	Currently Mandatory, Voluntary, or New Field	Recommendation	Rationale	Notes
Convertible Indicator*	Indicates if the security is convertible to equity.	Mandatory	Mandatory	Valuation	This indicator is necessary to understand if the bond is convertible. If it is, you would set up a convertible bond with the underlying equity and conversion price/conversion ratio.
First Conversion Date	Date when issue can first be converted to equity, if applicable.	New Field	Mandatory	Valuation	The option to convert the bond into stock may be exercised from this date forward.
First Conversion Ratio	Number of shares into which each convertible bond can be converted	New Field	Mandatory	Valuation	Number of shares into which each convertible bond can be converted
Call Indicator	Indicates whether the security has a call provision.	Mandatory	Mandatory	Valuation	This field is necessary in order to know if the bond has a callable feature. If so, there are specific callable dates and prices that the bond can be called at. This is necessary in the creation of the security and will also have an effect on its valuation.
First Call Date	The first date on which bonds may be called for redemption.	Mandatory	Mandatory	Valuation	As noted above if the call indicator is yes then it would be necessary to populate the callable dates and prices.

Proposed Data Field	Description	Currently Mandatory, Voluntary, or New Field	Recommendation	Rationale	Notes
Put Indicator	Indicates the existence of a feature that provides the bond holder the contractual option to redeem the bond prior to the scheduled maturity date.	New Field	Mandatory	Valuation	This field is necessary in order to know if the bond has a puttable feature. If so, there are specific puttable dates and prices that the bond can be called at. This is necessary in the creation of the security and will also have an effect on its valuation.
Put Date	Date on which securities are subject to redemption by the bond holder.	New Field	Mandatory	Valuation	As noted above if the put indicator is yes then it would be necessary to populate the puttable dates and prices.
Minimum Increment	The minimum increment of the face value of the bond as originally specified in the issuer's offering documentation of the security.	New Field	Mandatory	Settlement	This field is necessary in order to understand the minimum incremental amount of bonds that an entity can buy and settle at the depository.
Minimum Piece/Denomination	The minimum tradable denomination, amount, or investment, as originally specified in the issuer's offering document of the security.	New Field	Mandatory	Settlement	This field is necessary in order to understand the minimum tradeable amount of bonds that an entity can buy and settle at the depository.

Proposed Data Field	Description	Currently Mandatory, Voluntary, or New Field	Recommendation	Rationale	Notes
Spread	Spread is used in the calculation of the coupon for floating rate securities. The field is represented in basis points.	New Field	Mandatory	Settlement/Valuation	This field is necessary when building out the cash flow table of the instrument which determines the coupon for the period. Directly effects the purchase accrued and future interest distributions. This is needed in order to calculate the purchase and interest accrued
Reference Rate	Benchmark of a floating rate bond or securitized debt instrument.	New Field	Mandatory	Settlement/Valuation	This field is necessary when building out the cash flow table of the instrument which determines the coupon for the period. Directly effects the purchase accrued and future interest distributions. This is needed in order to calculate the purchase and interest accrued
Floor	The lowest allowable rate a coupon can be.	New Field	Mandatory	Settlement/Valuation	This field is necessary when building out the cash flow table of the instrument which determines the coupon for the period. Directly effects

Proposed Data Field	Description	Currently Mandatory, Voluntary, or New Field	Recommendation	Rationale	Notes
					the purchase accrued and future interest distributions. This is needed in order to calculate the purchase and interest accrued
Underlying	Returns the ticker that corresponds to the companies identifier of the corporate identifier.	New Field	Mandatory	Valuation	Returns the ticker that corresponds to the companies identifier of the corporate identifier. Needed to value convertible bonds.
Issuance Amount	The total issue amount of the security.	New Field	Mandatory	Valuation	The total issue amount of the security.
First Call Price	The first price on which bonds may be called for redemption based on the call schedule.	Mandatory	Mandatory	Valuation	Noted above if the call indicator is tagged to yes then it would be also necessary to populate the dates and prices of the call schedule.
First Put Price	The price at which the bond holder can sell the security if exercising the put option on the security.	New Field	Mandatory	Valuation	Noted above if the put indicator is tagged to yes then it would be necessary to populate the dates and prices of the put schedule.

Proposed Data Field	Description	Currently Mandatory, Voluntary, or New Field	Recommendation	Rationale	Notes
Coupon Type	Fixed, floating, step up/down, etc.	Mandatory	Mandatory	Settlement/Valuation	The Coupon Type field is used to determine whether the bond is paying fixed, floating, PIK, flat trading, etc. This field is needed in order to determine which type of bond you are creating, for example a fixed rate bond or a floating rate bond. This field will also determine if you will be accruing for cash interest or PIK.
Rating	If the security has been rated, and if so if the rating is Investment Grade or Non-Investment Grade.	Voluntary	Mandatory	Valuation	This field is helpful in understanding the risk of the security. Agencies rate securities on the issuer's ability to repay its obligations. Bond rating changes directly effect the valuation of the bond. However it is unclear that firms would have the commercial right to provide ratings for distribution.
Payment-In-Kind (PIK) Indicator	Indicates if the security has a Payment-In-Kind interest.	New Field	Mandatory	Valuation	This field determines whether or not you accrue for cash interest or not.

Proposed Data Field	Description	Currently Mandatory, Voluntary, or New Field	Recommendation	Rationale	Notes
					PIK bonds do not trade with purchase accrued.

*currently disseminated on the Corporate Security Daily List