InspereX

October 3, 2022

***Via Email:* pubcom@finra.org**

Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1506

Re: FINRA Regulatory Notice 22-17 Request for Comment

Dear Ms. Mitchell,

I am providing these comments in response to FINRA Regulatory Notice 22-17 on behalf of InspereX LLC ("InspereX" or "the Firm"), a registered broker-dealer headquartered in Chicago, Illinois (CRD#: 101420). InspereX is responding only to those questions referenced below that are directly applicable to the Firm's business model.

InspereX appreciates the opportunity to provide comments to Regulatory Notice 22-17 and share the Firm's perspective on reducing the reporting timeframe for transactions in all Trade Reporting and Compliance Engine (TRACE)-Eligible securities to no later than one minute from execution.

Executive Summary

By way of background, the Firm primarily engages in the underwriting, distribution and wholesaling of financial products. While many of the products distributed by The Firm are geared for retail investors, the Firm's trading counterparties consist of registered broker-dealers and other financial institutions. The Firm does not solicit transactions from traditional retail customers.

InspereX generally supports FINRA's efforts to increase market transparency. However, for the reasons stated in this letter, the current data does not support, and we do not support, drastically reducing the timeframe for TRACE-Eligible securities to no later than one minute from execution.

According to FINRA's 2021 economic impact assessment, 81.9 percent of trades across TRACE-Eligible Securities that are currently subject to the 15-minute outer limit reporting timeframe were reported within one minute of execution. If the one-minute rule proposal were implemented in 2021, over 18% of trade reports would have been deemed late. This substantial percentage of late trades does little, if anything, to meet the goal of enhancing market transparency. The rule proposal and economic impact assessment also fail to take into consideration the stark disparity in reporting times between member firms. Currently, only 16.4% of reporters are able to report 95% of their trades within one minute of execution. This data clearly demonstrates that the majority of reporters (86.4%) are not currently reporting transactions within the proposed one-minute timeframe, contrary to the timeframe outlined in the rule proposal. It is unreasonable for FINRA to impose a one-minute trade reporting requirement that a majority of its membership is not currently meeting.

Aside from Figure 1 of Regulatory Notice 22-17, the subsequent figures and tables in the economic impact assessment of the rule proposal solely analyze the impact of corporate bonds, the timeliest reported TRACE asset class in the 2021 sample. The figures and tables do not include other less timely reported asset classes such as Agency Bonds, ABS, and Equity Linked Notes. Since the rule proposal would amend the trade reporting timeframe for all TRACE-Eligible asset classes, not solely corporates, the figures and tables in the economic impact assessment are somewhat misleading given the universe of TRACE asset classes the proposed rule would impact.

FINRA Rule 6730 already requires dealers to report trades "as soon as practicable" and the current proposal does not specify that reporting firms are failing to adhere to this requirement. Moreover, the Firm is unaware of any empirical evidence that shortening the time reporting period to one minute will result in significant benefits for retail investors. Conversely, the costs in making material operational and technological changes to enable firms to comply with a one-minute trade reporting period may well result in a material increase in trading costs to retail investors.

For these reasons, InspereX strongly opposes the proposal and urges FINRA to abandon this initiative and continue to allow the industry to improve reporting times organically. Alternatively, if FINRA a) confirms that retail investors will directly and materially benefit from a reduction in the 15-minute trade reporting timeframe, and 2) FINRA deems that regulatory action is necessary and required, we would strongly recommend that any reduction in the 15-minute trade reporting period be done so incrementally, over a period of years.

InspereX Request for Comment Responses

FINRA Request:

1) FINRA is proposing to reduce the trade reporting and concomitant public dissemination timeframe for corporate, agency, ABS and MBS TBA GD transactions from an outer limit of 15 minutes to one minute. FINRA acknowledges that reducing the reporting timeframe would necessitate a greater change in behavior for members in connection with some types of securities and transactions than others—e.g., ABS (see Figure 1). Do commenters agree that timelier dissemination would be beneficial for all types of TRACE-Eligible Securities that are currently subject to the 15-minute reporting timeframe?

InspereX Response:
InspereX does not believe that the marginal benefits created by timelier dissemination of trade information will justify the challenges that such timelier dissemination for certain securities will impose on member firms. Nearly all fixed income trading currently takes place through a decentralized over-the-counter (OTC) market. This OTC market is comprised of nearly 1 million individual bonds, many of which are traded on an infrequent basis. Shortening the 15-minute reporting timeframe for infrequently traded securities, such as ABS and MBS TBA's, provides no additional benefit to investors since the information available to make an investment decision is often stale and not regularly updated given limited trade histories. Further, these infrequently traded instruments are often sold to investors as a "buy and hold" strategy. If the investor needs to liquidate these illiquid securities for any purpose, it is unlikely that the investor will be able to rely upon TRACE information when the security has no recent trade data. Therefore, from our perspective, materially shortening the reporting timeframe will provide no additional information or improve the quality of executions benefits for investors that purchase and sell certain illiquid securities.

FINRA Request:

2) Would the benefits be different for different types of TRACE-Eligible Securities subject to the proposal—specifically, for corporate, agency, ABS or MBS TBA GD? In the case of corporate debt securities, would the benefits be different for investment grade than for high-yield debt?

InspereX Response:

InspereX does not believe that there would be a marked difference in benefits for different types of TRACE-Eligible Securities subject to the proposal. InspereX strongly believes that if the industry is to reduce the reporting time for TRACE-Eligible transactions that the reduction should be consistent across all asset classes. A consistent reporting time frame eliminates the potential for reporting errors and cancellations across asset classes and subsequently promotes timely dissemination of accurate transaction data to the industry at large.

FINRA Request:

3) Would the benefits of the proposal be different for different types of market participants—e.g., retail investors, institutional investors, dealers or others? Please be specific.

InspereX Response:

FINRA's stated intent for reducing the TRACE-reporting timeframe is to "improve transparency and allow investors and other market participants to obtain and evaluate pricing information more quickly—creating a qualitative increase in market transparency for these securities."[1] *InspereX believes that an industry assessment determining which market participants utilize*

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[1] *See* FINRA Regulatory Notice 22-17 (Aug. 2, 2022), https://www.finra.org/rules-guidance/notices/22-17#notice

TRACE data to evaluate pricing information prior to making investment decisions would be beneficial to qualify and quantify the intended benefits of this proposal.

As of September 1, 2022, pursuant to federal bank regulations, Covered Depository Institutions, generally large bank dealers with large trade volumes, are required to report transactions in U.S. Treasury securities, agency debt securities and agency mortgage-backed securities to TRACE. These large bank dealers are not subject to this proposal and therefore may still report transactions in Agency Debt Securities and Agency MBS within 15 minutes of the time of execution. In 2021, 90% of FINRA-member firms were classified as small or having less than 150 registered representatives. Requiring FINRA-member broker-dealers, regardless of size, to adhere to stricter reporting requirements than large bank dealers will create a major competitive disadvantage with implementation and continuing compliance costs. Further, differentiating trade reporting requirements for regulated reporting entities significantly hampers the stated goal of increasing market transparency across all TRACE-Eligible securities. These discrepancies are further compounded by depository institutions not covered by FR 2956 who deal in these securities and have no trade reporting requirements whatsoever.

FINRA Request:

5) Do members anticipate any operational challenges in connection with complying with the proposed reporting timeframe?

- For example, do firms anticipate that reporting within one minute of execution may result in the need for additional cancellations or corrections?
- Are there specific types of products that cannot reasonably be reported within one minute of the time of execution? Please specify.
- Are there any other considerations that may complicate reporting within one minute of execution? If so, are those considerations similar for both voice and electronic executions? Please explain.

InspereX Response:

InspereX anticipates that reporting TRACE-Eligible transactions within one minute of execution will result in a significant increase in cancellations and corrections for both voice and electronic executions. The current 15-minute reporting timeframe allows for traders to adequately review trade tickets for errors in settlement, price, amount, etc. Even with the 15-minute window, human errors in completing trade tickets often lead to trade cancellations and modifications. Reducing the trade reporting time to one minute will likely have a detrimental effect on reporting accuracy because market participants will solely be concerned with timely reporting and not reviewing for accurate trade information. For more information, please refer to question 9 below.

FINRA Request:

9) Figure 2 shows that reporting timeframes differ based on trade size, where larger trades took longer to report. Why do large trades take longer to report? Would the reduction in the reporting timeframe provide a comparatively greater benefit to the market with respect to large trades? Might the reduced timeframe result in increased costs for large trades and, if so, might these costs be passed on?

InspereX Response:

Large volume trades are more likely to be executed through voice negotiations than through automated platforms, leading to longer reporting times. When large volume trades are negotiated, traders are more likely to execute the transaction with counterparties whom they have a preexisting relationship. This existing relationship helps ensure that the parties are receiving a fair price for the transaction and confirm that the bonds will be delivered on the specified delivery date. These voice trades often require manual ticket entry and processing by both traders and operational support staff. By the time the trader opens the ticket, manually fills out the necessary ticket information, and confirms the trade with the counterparty the proposed one-minute window has likely elapsed. Another consideration is that these larger transactions are often for various trades at the same time, not just one CUSIP or bond. Therefore, multiple trade tickets need to be executed to memorialize the entirety of the transaction. Even if a trader is diligent in completing these tickets at the time the trade is confirmed, the sheer volume of reported transactions lead to delays in processing that are outside the control of the trading counterparties. Moreover, such activities only take into account the actions of the trading firm and its counterparty and does not account for any operational or other tasks to be completed by the trading firm's clearing broker-dealer (assuming such trading firm does not self-clear its own transactions). Smaller, introducing broker-dealers may struggle more so than larger firms in adhering to a shortened trade reporting period.

FINRA Request:

11) How might the reduced reporting timeframe affect competition among reporters of different activity levels in TRACE-Eligible Securities? Table 3 shows that very active reporters submitted trade reports faster than other reporters. Might members' compliance costs (e.g., costs in connection with upgrading systems) differ depending on firms' activity levels?

InspereX Response:

A significantly reduced reporting timeframe would likely reduce competition among reporters of different activity levels in TRACE-Eligible securities. As shown in Table 3 of the proposal, only 43% and 45% of trades performed by moderately-active and less-active reporters were reported within one minute of execution, respectively. In order to comply with a one-minute reporting timeframe, these firms will have to consider whether their current trading volume and revenue justifies the various compliance expenses and regulatory risk associated with adhering to the *reduced timeframe. If these firms decide that the costs to implement these systems exceed the benefits to the firm, they may very well decide to exit the fixed income market. Fewer market participants will undoubtedly lead to negative pricing and liquidity for retail investors.*

***FINRA Request*:**

12) What technology, compliance or other costs would be associated with the proposed reporting timeframe reduction? Please be specific

InspereX Response:

In order to comply with the reduced reporting timeframe, there will be a significant increase in technology, compliance, and other costs. First, nearly all fixed-income trading will have to occur on an electronic platform, instead of through a voice broker, where a trading ticket is auto-generated and pre-populated with certain customer information. In order to populate these electronic systems, InspereX will need to hire additional sales assistants and operational professionals to first implement and then maintain ever-changing customer data. Aside from the costs of these additional professionals, these electronic systems charge firms substantial fees for the use, maintenance, and retention of their systems.

Further, FINRA violations for late trade reporting are often black and white. Either the trade is reported within the specified time frame or it is not. Akin to a speeding ticket, there are no other evidentiary measures necessary in order for FINRA to bring an examination or an enforcement action against the late-reporting firm. Given the operational challenges in meeting the proposed one-minute reporting timeframe, the Firm will need to utilize additional compliance resources to monitor systems and procedures and to provide documentation to FINRA when these examinations arise. This is also likely to increase the costs of any applicable fines for the violations or examination findings. Such increased expenses will likely result in increased trading costs for retail and institutional investors.

***FINRA Request*:**

15) Should FINRA consider a longer or shorter reporting timeframe than one minute? If so, what timeframe would be appropriate, for which products, and why?

InspereX Response:

FINRA Rule 6730 already requires dealers to report trades "as soon as practicable" and the current proposal does not specify that reporting firms are failing to adhere to this requirement. In order to limit the industry participant's financial, operational, and technological burdens while still promoting market transparency, InspereX supports maintaining the current 15-minute requirement and abandoning the proposal entirely. If FINRA does decide that a reduction in reporting timeframes is warranted after the comment period, InspereX supports a phased approach to reducing reporting timeframes to no less than 10 minutes from execution.

InspereX also believes that the reporting timeframe should be consistent across all TRACE-Eligible securities. Altering the reporting timeframe by product creates additional operational, compliance, and behavioral burdens that could potentially result in an increase in trade cancellations and corrections.

FINRA Request:

16) Should FINRA consider providing any exceptions, whether on a temporary or permanent basis, for particular types of firms, for example, those with limited trading volume in corporates, agencies, ABS and MBS TBA GD securities? If so, what threshold should FINRA consider for an exception and should it differ for the different types of securities that are subject to the proposal? Are there any additional exceptions that FINRA should consider? What impacts would permitting exceptions have on the overall benefits of the proposal? Would reducing the reporting timeframe benefit the market with respect to after-hours trades? Would the proposal result in challenges for reporting after-hours trades?

InspereX Response:

The majority of industry participants rely upon various third-party vendors, such as Bloomberg TOMS, to report TRACE-Eligible transactions. When relying upon these vendors, firms often have no ongoing assurance that the vendor will report to TRACE within a specified timeframe. If a member firm performs reasonable diligence and thus reasonably relies upon a third party to report eligible transactions to TRACE, InspereX believes that there should be a permanent enforcement exception for trades reported late due to a lag in reporting, outage, or other disruption directly caused by the third-party. Enforcement should strictly review only the member's conduct during reporting timeframe, and perhaps independently review the conduct of third-party reporting entities. This exception should apply to situations regardless of whether the third-party vendor is a FINRA member or not. Further, InspereX believes one-year grace period from the rule effective date should be granted for late trading enforcement actions to allow the industry the opportunity to process and rectify any unforeseen technological or operational issues.

FINRA Request:

17) What implementation period would be appropriate to provide members with sufficient time to comply with the proposed changes to the reporting timeframe?

InspereX Response:

In 2004, the SEC approved amendments to TRACE rules by reducing the reporting period of TRACE-eligible transactions. This reduction in the reporting period occurred in two stages. Stage One, requiring 30-minute reporting, became effective on October 1, 2004. Stage Two became effective nine months later and ultimately reduced the reporting period to the current *time of 15 minutes.*[2] *While industry technology and operational capabilities have evolved since 2004, InspereX believes that if FINRA is to move forward with this proposal a staggered implementation period allows for a qualitative increase in market transparency while simultaneously allowing members sufficient time to comply to proposed changes to the reporting timeframe. InspereX believes that a one-year period before implementation and between each potential staggered interval is sufficient for traders, salespeople, operational professionals, compliance professionals, and third-party service providers to effectively comply with these rule changes. Concurrent with such time frame, InspereX also believes further empirical studies need to be conducted to determine the marginal benefits, if any, retail investors will achieve as a result of shortened trade reporting periods.*

Thank you for the opportunity to present our views and perspectives.

Sincerely,

Robert O Bullington

Robert D. Bullington
InspereX LLC
Vice President, Compliance Officer

[2] *See* FINRA Notice to Members 04-51 (July 2004), https://www.finra.org/rules-guidance/notices/04-51