September 30, 2022

Jennifer Piorko Mitchell
FINRA
1735 K Street, NW
Washington, D.C. 20006-1506

RE: REGULATORY NOTICE 22-17; COMMENT ON A PROPOSAL TO SHORTEN THE TRADE REPORTING TIMEFRAME FOR TRANSACTIONS IN CERTAIN TRACE-ELIGIBLE SECURITIES FROM 15 MINUTES TO ONE MINUTE.

Dear Ms. Mitchell:

Valley Financial Management, Inc. ("VFM")[1] welcomes the opportunity to submit comments on FINRA's above-captioned proposal, an amendment to Rule 6730 to reduce the Trade Reporting and Compliance Engine ("TRACE") reporting time, for TRACE-eligible securities, from 15-minute to one-minute. We strongly disagree with the proposed rule change.

VFM is a small broker-dealer and registered investment advisor providing financial advice and investment services. VFM has offices in New York, Florida, Illinois, and California.
VFM's success is based upon the exceptional personalized service it provides to its clients.

Small broker-dealers, like VFM, account for approximately 90% of FINRA members. FINRA president Robert Cook has recognized the role played by small broker-dealers and acknowledged that regulations can place a disproportionate burden on them. Mr. Cook has noted that the small broker-dealers often "provide services to communities who otherwise might be underserved, and they sometimes provide access to capital markets, especially municipalities, that might otherwise be underserved. And small business is an engine of job growth, and we should be thinking of this issue of wanting to promote that engine of job growth." In other words, FINRA ought to be both solicitous of the opinions of smaller broker-dealers in the rules it proposes and ensure that those rules do not operate to favor larger broker-dealers at their expense. Yet, the impact of the proposal at issue would clearly run contrary to such sentiment. Shortening the TRACE reporting time to one-minute would favor larger broker-dealers who rely on an array of expensive automation tools and third-party vendors to facilitate their trading and timely reporting and penalize the small ones.

Based upon the analysis offered in the rule proposal, the rationale is that, under the current regime, 81.9% of the trades that are currently subject to the 15-minute reporting limit were actually reported within one-minute of execution. FINRA provides extensive analysis of the timeliness of current reporting patterns of the major fixed income market sectors. There are, however, a few critical gaps in the analysis. For example, it finds that 16.4% of reporters submitted 95% of their trades within one-minute. Yet, no details were provided as to the profile of the broker-dealers who comprise the 83.6% who are not reporting within one-minute and what the obstacles might be to their achievement of the one-minute goal. FINRA divides the reporting universe into three and indicates that the group that it identified as "very-active reporters" had the highest rate of reporting within the one-minute window and those who are referred to

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as “less active reporters” had the least. Presumably the “less-active reporters” are a proxy for the smaller broker-dealers. If so, FINRA’s analysis, not surprisingly, reflects that reporting in a proposed one-minute window would have the greatest negative impact on this group.

The analysis also shows that just over half of the trades that were Web-entered, as compared to 97% of the trades reported by those who use FIX, were reported within 5 minutes, and 68% of the Web-entered trades were reported within 10, minutes as contrasted to 99% of the FIX users. Given this analysis, one might conclude that it might make sense to incrementally reduce the reporting time and then analyze that impact. Indeed, FINRA provides no explanation for why it is proposing a new reporting time of one-minute rather than 5 minutes or 10 minutes. To the extent that FINRA still believes shortening the window for trade reporting is worth the burden it imposes upon participants, VFM respectfully suggests that FINRA should explore an incremental approach to shortening the trade reporting window before taking the drastic step of going from 15 minutes to one.

Finally, the analysis of the economic impact on those reporters who are not already voluntarily reporting in one-minute, to a move to require that they report in one-minute, is woefully lacking. VFM respectfully suggests that the cost for smaller broker-dealers to comply with the proposed change would be extremely burdensome. As it is likely that the sector referred to in the FINRA analysis as the “less-active reporters” encompasses mostly the small broker-dealers, the cost per trade of the added technological and vendor expenses would be prohibitive of complying with the proposed change.

Many sectors of the fixed income market in which the smaller broker-dealers play a larger, indeed indispensable, role are those that are less liquid, typically have only one-sided quotes, and where trading and trade reporting are still accomplished “manually.” This, in part, makes the one-minute reporting goal unrealistic and, even, next to impossible. These are fixed income market sectors and specific CUSIPs where there are significantly fewer regular bidders than the larger more liquid ones that were the primary focus of FINRA’s analysis.

The current 15-minute window allows time to resolve matching exceptions. The one-minute proposal will make the exception-matching process very challenging. The increased time pressure will invariably result in more post-trade corrections than there are currently which are reflected as such in EMMA but appear as late reports in TRACE. The FINRA analysis is dismissive of this argument because under the current 15-minute regime trade corrections are not that frequent as a percentage of all the trades reported. If this proposal were adopted, they would become far more frequent, and disproportionately impact the smaller firms.

The FINRA proposal will benefit the large broker-dealers, the “very-active reporters,” and might actually even level the playing field for them against the buy-side firms that act as their competitors in the market, such as BlackRock, Susquehanna, and Fidelity, to name a few. It will allow them all to see the most significant bond flows in “real time.” It will also benefit the large algorithmic trading desks as it will eliminate any gaps in their algorithms caused by the current longer than one-minute window. The smaller broker-dealers, or “less-active reporters,” will, however, have pressure to make huge investments in technology. Those corners of the market that are still traded manually will not find that technology can improve their reporting time by a meaningful amount.

FINRA is already losing a significant number of small broker-dealer members each year. This new rule will precipitate that trend. If the unintended result of adoption of this proposal means that even one less bond market participant will be operating in certain sectors because of the hidden infrastructure costs

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imposed by this rule, that sector will become less liquid. This outcome is the opposite of FINRA's intended outcome.

Simply stated, before it applies a "one-size-fits-all" rule, FINRA ought to reexamine this rule proposal in light its negative impact upon smaller market participants and less liquid sectors of the bond market. FINRA's analysis ought to take these considerations seriously and not assume, without analyzing, that the transition from fifteen minutes to one minute reporting will be seamless. From our perspective, that type of necessary analysis was not done.

We would be happy to provide additional information upon request.

Very truly yours,
Valley Financial Management, Inc.

Christopher J. Gawley

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