MANAGED FUNDS ASSOCIATION
The Voice of the Global Alternative Investment Industry
WASHINGTON, DC | NEW YORK

June 11, 2019

Via Electronic Mail: pubcom@finra.org

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

Re: Regulatory Notice 19-12; Proposed Corporate Bond Block Trade Dissemination Pilot Program

Dear Ms. Asquith:

Managed Funds Association[1] ("**MFA**") appreciates the opportunity to submit comments in response to FINRA's request for comment on a proposed pilot program to study changes to corporate bond block trade dissemination (the "**Pilot Program**").[2] The Pilot Program, based on recommendations of the Securities and Exchange Commission's ("**SEC**") Fixed Income Market Structure Advisory Committee ("**FIMSAC**"), is designed to study two primary changes: (1) an increase to the current dissemination caps from $5 million to $10 million for investment grade ("**IG**") corporate bonds, and from $1 million to $5 million for non-IG corporate bonds; and (2) delayed dissemination of any information about trades above the proposed $10 million and $5 million caps for 48 hours.[3] MFA members have found that liquidity in the fixed income markets have improved with the introduction of FINRA's Trade Reporting and Compliance Engine ("**TRACE**") transparency. MFA supports increasing the current dissemination caps, but has concerns with delaying dissemination of trade information and the overall complexity of the Pilot Program and provides the following recommendations:

- **MFA concludes based on existing data that the likely harm to investors and overall degradation of markets from the Pilot Program is not worth the value of conducting the Pilot Program. Thus, MFA recommends that FINRA abandon the Pilot Program.**
- **In the alternative, MFA recommends that FINRA increase the current dissemination caps and reevaluate in a year whether a simpler and smaller pilot to test a dissemination delay of one-to-two hours is necessary.**

[1] Managed Funds Association ("MFA") represents the global alternative investment industry and its investors by advocating for sound industry practices and public policies that foster efficient, transparent, and fair capital markets. MFA, based in Washington, DC, is an advocacy, education, and communications organization established to enable hedge fund and managed futures firms in the alternative investment industry to participate in public policy discourse, share best practices and learn from peers, and communicate the industry's contributions to the global economy. MFA members help pension plans, university endowments, charitable organizations, qualified individuals and other institutional investors to diversify their investments, manage risk, and generate attractive returns over time. MFA has cultivated a global membership and actively engages with regulators and policymakers in Asia, Europe, North and South America, and many other regions where MFA members are market participants.

[2] FINRA Regulatory Notice 19-12, April 12, 2019, available at: http://www.finra.org/sites/default/files/notice_doc_file_ref/Regulatory-Notice-19-12.pdf.

[3] *Id.*

I. Concerns with Delaying Dissemination of Trade Information

We do not support the Pilot Program and believe FINRA and the SEC should be guided in their decision-making for the necessity of a Pilot Program by quantitative data and existing studies. Immediate dissemination of post-trade data has been beneficial for investors by providing greater price transparency, decreasing transaction costs, and enhancing market efficiency—saving public investors an estimated $1 billion/year.[4] As FINRA has acknowledged in Regulatory Notice 19-12, studies show that TRACE has reduced trading costs for both retail and institutional investors.[5] Studies also indicate that TRACE reporting had little impact on trading activity as dealers predicted,[6] which raises the question that if TRACE reporting did not deteriorate trading activity or the volume of trades what is the basis for believing that a 48-hour delay in post-trade reporting would improve liquidity?

The introduction of TRACE and 15-minute post-trade reporting has helped shift trading volume to electronic platforms, which in turn helps attract new market participants (*i.e.*, small dealers and market makers), increases price competition and liquidity, and facilitates innovation. This is particularly important post-financial crisis as large dealers are less willing to commit as much capital to market making activity due to the Volcker Rule.[7] Moreover, markets tend to be more resilient with a greater diversity of market participants.

Based on data from 2013 to 2017, were the Pilot Proposal in place for that period, it would have delayed reporting on 32.6% of total par value of IG corporate bonds traded, and 40.8% of total par value of non-IG corporate bonds traded.[8] We are concerned that such a material deterioration in pricing transparency would have far-reaching consequences and would likely widen the bid-ask spread for all trades as market participants will have less certainty of market pricing given the possibility of large block trades occurring. In addition, the information asymmetry created by the Pilot Program will have a negative impact and inject greater uncertainty and volatility in the pricing and markets for overlaying exchange-traded funds and mutual funds, as well as the markets for related interest-rate and derivative products.

MFA concludes based on existing data that the likely harm to investors and overall degradation of markets from the Pilot Program is not worth the value of conducting the Pilot Program. Thus, MFA recommends that FINRA abandon the Pilot Program.

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[4] *See* letter from Larry Harris, Fred. V. Keenan Chair in Finance, USC Marshall School of Business, Kumar Venkataraman, James M. Collins Chair in Finance, Southern Methodist University, and the Honorable Elisse Walter, Former Chairman, SEC, to Brent J. Fields, Federal Advisory Committee Management Officer and Secretary, SEC, dated Aug. 21, 2018, regarding Fixed Income Market Structure Advisory Committee, available at: https://www.sec.gov/comments/265-30/26530-4268151-173129.pdf. *See also* Asquith, Covert and Pathak, The Effects of Mandatory Transparency in Financial Market Design: Evidence from the Corporate Bond Market, draft dated April 4, 2019, available at: http://home.uchicago.edu/~tcovert/webfiles/trace.pdf.

[5] FINRA Regulatory Notice 19-12, *supra* n. 2 at p. 19 and n. 62.

[6] *See, e.g.,* Goldstein, Hotchkiss, and Sirri (2007), and Asquith, Covert and Pathak (draft 2019).

[7] Dick-Nielson and Rossi (2016), The Cost of Immediacy for Corporate Bonds, available at: http://gcfp.mit.edu/wp-content/uploads/2016/09/Dick-Nielsen-Rossi.pdf.

[8] *See id.* at 6.

II. Concerns with the Pilot Program

To the extent FINRA determines to move forward with the Pilot Program, we believe it should consider changes to the Pilot Program. As a general matter, we believe FINRA's proposed Pilot Program, a modification of the FIMSAC recommendations, is an improvement from the FIMSAC recommendations. For example, we believe it is critical for the Pilot Program to have a control group. Nevertheless, we remain concerned with the length of the dissemination delay, the complexity of the Pilot Program and the potential costs associated with it.

The Pilot Program proposes to have four groups, consisting of a control group and three test groups:

- **Control Group;**
- **Test Group 1** would study a 48-hour dissemination delay with no change to the current dissemination caps;
- **Test Group 2** would study increased dissemination caps with no change to the current dissemination timeframes; and
- **Test Group 3** would study both a 48-hour dissemination delay and increased dissemination caps.[9]

First, we are concerned that 48-hours is too long of a dissemination delay, and that such an information asymmetry will significantly impact price discovery and market quality by reducing pricing transparency and increasing spreads and transaction costs. Particularly in times of market stress, the 48-hour dissemination delay will likely exacerbate volatility by increasing market uncertainty and deterring liquidity.

Second, we are concerned that the vast scope of the study made necessary by the number of variables the Pilot Program sets out to test, will be costly to many investors. Given our concern with the likely harm from a 48-hour dissemination delay, we are troubled with the proposed breadth of the Pilot Program which will mean that 50% of all eligible corporate bonds will be subject to a 48-hour dissemination delay.[10] Based on statistics from 2018, a 48-hour dissemination delay from the Pilot Program would apply to approximately 16,204 bond issues and likely cost investors hundreds of millions of dollars over the duration of the Pilot Program (based off of the estimate that investors saved $1 billion/year from greater transparency).[11]

If FINRA is determined to move forward with a pilot, we believe FINRA should consider scaling back the Pilot Program by decreasing the size and costs associated with it. First, prior to a pilot, FINRA should permanently increase the current dissemination caps to $5 million for non-IG corporate bonds and $10 million for IG corporate bonds as we think the current dissemination caps are quite low.[12] After a year, FINRA should reevaluate the necessity for a pilot to test a dissemination delay. If FINRA determines that a pilot is still needed, MFA proposes that FINRA limit the pilot to a control group and one test group studying a dissemination delay of one or two hours. We think a one-to-two hour delay would strike a more balanced approach between providing investors with price transparency and decreasing market impact of

[9] FINRA Regulatory Notice 19-12, *supra* n. 2.

[10] The Pilot Program would include non-convertible, callable and non-callable TRACE-eligible corporate debt securities, except for bonds issued by religious organizations or for religious purposes, and equity-linked notes. FINRA Regulatory Notice 19-12, *supra* n. 2 at p. 12.

[11] *See id.* at p. 20 (Table 1), *and* Harris, Venkataraman and Walter, *supra* n. 4.

[12] *See, e.g.,* FINRA Regulatory Notice 19-12, *supra* n. 2 at p. 22 (Table 3).

block trades. Such a pilot would be significantly simpler with only one test group and would not need to be as large, nor costly as the Pilot Program. We think it would also limit the potential harm to investors.

Thus, MFA recommends that FINRA increase the current dissemination caps and reevaluate in a year whether a pilot to test a dissemination delay of one-to-two hours is necessary.

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MFA would be pleased to discuss further the Pilot Program and the issues raised in this letter with FINRA staff. Please do not hesitate to contact Jennifer Han, Associate General Counsel at (202) 730-2600.

Respectfully submitted,

/s/ Mark D. Epley	/s/ Jennifer W. Han
Mark D. Epley Executive Vice President & Managing Director General Counsel	Jennifer W. Han Associate General Counsel

CC: Bob Colby, Chief Legal Officer, FINRA

The Honorable Jay Clayton, Chairman, SEC
The Honorable Robert J. Jackson Jr., Commissioner, SEC
The Honorable Hester M. Peirce, Commissioner, SEC
Mr. Brett Redfearn, Director, Division of Trading and Markets, SEC