



1401 H Street, NW, Washington, DC 20005-2148, USA
202/326-5800 www.ici.org

August 15, 2016

Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Re: File No. SR-FINRA-2016-027

Dear Mr. Fields:

The Investment Company Institute (“ICI”)¹ appreciates the opportunity to comment on the proposal of the Financial Industry Regulatory Authority, Inc. (“FINRA”) to require its members to report transactions in U.S. Treasury securities to the Trade Reporting and Compliance Engine (“TRACE”).² Registered investment companies (“funds”) are significant investors in the Treasury securities markets. As important end users of Treasury securities, funds have a strong interest in ensuring the integrity and quality of the Treasury market.

We commend FINRA for proposing to extend TRACE reporting requirements to transactions in U.S. Treasury securities involving FINRA members. The Department of the Treasury expressed the view earlier this year that the official sector presently lacks an adequate understanding of the functioning and development of the U.S. Treasury market.³ ICI appreciates that regulatory reporting

¹ ICI is a leading, global association of regulated funds, including mutual funds, exchange-traded funds, closed-end funds, and unit investment trusts in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI’s U.S. fund members manage total assets of \$17.9 trillion and serve more than 90 million U.S. shareholders.

² See Securities and Exchange Commission, *Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of a Proposed Rule Change Relating to the Reporting of U.S. Treasury Securities to the Trade Reporting and Compliance Engine*, 81 Fed. Reg. 48465 (Jul. 25, 2016), available at <https://www.gpo.gov/fdsys/pkg/FR-2016-07-25/pdf/2016-17446.pdf> (“FINRA Proposal”).

³ See Department of the Treasury, *Notice Seeking Public Comment on the Evolution of the Treasury Market Structure*, 81 Fed. Reg. 3928 (Jan. 22, 2016), available at <https://www.gpo.gov/fdsys/pkg/FR-2016-01-22/pdf/2016-01246.pdf> (“Treasury Notice”). ICI’s comment letter in response to that notice explained funds’ experience transacting in the Treasury cash market, provided recommendations on how to structure an effective regulatory reporting regime, addressed considerations regarding whether public access to data on the Treasury cash market is appropriate, and explained the importance of providing an adequate period of time to allow market participants to come into compliance with any new reporting requirements. See Letter from David W. Blass, General Counsel, ICI, to Office of the Under Secretary for Domestic

Mr. Brent J. Fields
August 15, 2016
Page 2 of 3

of transactions in U.S. Treasury securities could help regulators ensure an efficient and competitive market for all participants, including funds and other investors. We welcome FINRA's proposed rule as advancing this objective.

We believe that FINRA's proposal to require its members to report their transactions in U.S. Treasury securities is appropriate given the interconnectedness of these intermediaries and their ability to efficiently report transactions in other fixed income markets. Virtually all trades in U.S. Treasury securities involve an intermediary—such as a broker-dealer, trading platform, or proprietary trading firm (“PTF”)—so regulators can obtain comprehensive information about the U.S. Treasury market by receiving trade reports from intermediaries.⁴ FINRA members also currently report trades in other fixed income markets to TRACE and generally have developed systems to communicate information about fixed income transactions to a wide range of market participants. The proposal would leverage these existing reporting and communications systems rather than imposing obligations on customers—such as funds and other investors—that do not presently have systems in place to accommodate trade reporting obligations.

We note, however, that this proposal will provide the official sector with only partial information about the U.S. Treasury cash market because, as FINRA recognizes, not all intermediaries in this market are FINRA members.⁵ Some significant intermediaries, including certain PTFs with potentially high levels of trading activity, face little or no regulation. Until the official sector attains a more complete view of market activity—including the activity of PTFs—we caution regulators against using the data obtained through TRACE reporting to develop rules that would change the structure of the U.S. Treasury cash market. Fundamental changes to market structure, such as trading halts, circuit breakers, public dissemination of certain trading activity or platform-trading mandates, have the potential to disrupt the operation of this vital market if they are implemented prematurely or unnecessarily. We urge regulators not to advance rules of this nature without a more complete understanding of the present functioning of the market than this rule proposal will provide.

We support FINRA's decision to not propose a public dissemination requirement at this time for transactions in U.S. Treasury securities. As we explained in our letter earlier this year to the Department of the Treasury, while we recognize that public transparency might bring certain benefits to the Treasury cash market, we believe that this transparency must be carefully balanced against risks it

Finance, Treasury, dated April 8, 2016, *available at* <https://www.ici.org/pdf/29819.pdf> (“ICI Response to Treasury Notice”).

⁴Requiring customers, such as funds, to report their transactions in U.S. Treasury securities would not enhance the information available to regulators because customers historically have not traded with each other in the U.S. Treasury cash market. *See* Treasury Notice, *supra* note 3, at 3928.

⁵ *See* FINRA Proposal, *supra* note 2, at 48471-72.

Mr. Brent J. Fields
August 15, 2016
Page 3 of 3

could raise for the Treasury market and its participants.⁶ We agree with FINRA that “concerns about public dissemination . . . are heightened when some, but not all, market participants are reporting transactions.”⁷ We therefore recommend that the appropriateness of public dissemination be reconsidered at a later point, after the official sector is able to achieve a more complete view of market activity (including the activity of PTFs), and only after the official sector has obtained data on this activity over a sufficient period of time. We urge regulators to consider the following factors to inform any proposed public dissemination requirements: (1) the goals such disclosure would be intended to achieve; (2) the data elements that would be publicly disclosed to achieve those goals; (3) whether those data elements would apply to all Treasury securities; and (4) whether publicly disclosing this data will achieve those goals without harming the market.

* * *

We appreciate the opportunity to comment on this proposal. If you have any questions regarding our comments, please contact me at (202) 326-5815, Sarah Bessin at (202) 326-5835, or George Gilbert at (202) 326-5810.

Sincerely,

/s/ David W. Blass

David W. Blass
General Counsel

⁶ See ICI Response to Treasury Notice, *supra* note 3, at 10.

⁷ FINRA Proposal, *supra* note 2, at 48468.