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

Via email: [pubcom@finra.org](mailto:pubcom@finra.org)

Re: Proposed Pilot Program to Study Recommended Changes to Corporate Bond Block Trade  
Dissemination

Dear FINRA:

Here are my comments on the proposed pilot:

In summary

- Evidence-based regulation is a good idea, when properly implemented.
- It is premature to run the pilot without testing its premise on existing data.

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<sup>1</sup> All opinions are strictly my own and do not necessarily represent those of Georgetown University or anyone else.

- Instead of suppressing all price information in one group, experiment with suppressing all volume information.

FINRA has proposed, following FIMSAC's suggestion, a pilot experiment to enhance liquidity in the fixed income markets by reducing the transparency for some large bond trades. I am a strong proponent of evidence-based regulation and thus am sympathetic to pilot experiments. However, they must be well designed to gather data whose expected benefits outweigh the expected costs of the pilot.

**It's premature to conduct the pilot without better examining existing data.**

As Larry Harris has pointed out in his thoughtful comment letter, the purported benefit is that dealers will suffer from less front-running due to the delayed disclosure of their potential positions. This can be explored using existing data by examining the amount of front-running and price impact that occurs right around the current dissemination boundaries using a regression discontinuity design. This should be done to see whether there are potential gains to market quality from the proposed changes before conducting any pilot.

**Forced disclosure breaches intellectual property and financial privacy rights and should only be done when there is an overwhelming public purpose.**

Information is valuable intellectual property. In recent years, jurisdictions around the world (including the United States) are appreciating more and more the value of intellectual property and are building stronger legal protections. These stronger protections include tougher copyright and patent laws. Similarly, jurisdictions around the world are also building stronger laws to protect financial privacy as well. Our legal system should only breach these fundamental rights to privacy and property when there is an overwhelming public purpose. Even when there is such a purpose, disclosure rules should be designed to achieve their objectives with the least possible amount of breaching of privacy and intellectual property.

Issues of "transparency" involve the definition of property rights in information and the protection of financial privacy. In general, one's own financial affairs are private matters, and one's personal financial information is one's private intellectual property.

Society finds it useful to create legal protection for property rights as it creates incentives for owners to properly manage property and invest in "improvements" such as planting crops or building structures. Likewise, protecting intellectual property (e.g. patents) creates incentives for the creation of intellectual property. In short, we create property rights, including intellectual property rights, in order to increase the production of useful goods and services. We also believe that personal privacy is a right worth protecting.

It is only when there is an overwhelming public purpose that these property rights should be breached. Indeed, no property rights are absolute. Patents and copyrights have a limited life, so that further invention can be built on top of the original innovations. Ownership of real estate is limited by laws that require easements or zoning laws that may restrict building on the property. Furthermore, real estate may be seized due to non-payment of taxes or acquired through eminent domain.

One never-ending debate is how extensive the protection of intellectual property should be. How long should copyrights and patents last? The appropriate metric is what will maximize the production of useful goods and services, or conversely, minimize costs. With respect to financial data, we want to maximize some metric of market quality (that elusive concept of "liquidity") that permits the low-cost transfer of fixed-income risk while minimizing unnecessary volatility in the markets. This is all part of the greater regulatory goals of protecting investors, creating fair and orderly markets, reducing systemic risk, and promoting economic growth.

**Instead of suppressing price information, experiment with suppressing all volume information.**

Experience with TRACE has shown that the market quality for the bond market increased dramatically after its introduction. Better information about market prices reduces search costs and negotiating costs for all investors.

This particular pilot proposes no immediate price dissemination for large block trades in one of the pilot groups. NO NO NO NO on this part! This is a huge step backwards that will harm the accurate pricing of ETFs and mutual funds. The lack of information about price will increase search and negotiation costs for all investors.

A better approach for this treatment group would be to suppress all VOLUME information about the trade. Participants would see that a trade occurred, but would not have any size information. The trade report would indicate that a trade occurred at a price, but there would be no hint that it was a block trade rather than a retail trade. The current practice of reporting price with a "Greater than limit" indicator announces that it is a block trade, which could trigger some front running of a dealer's position.

Respectfully submitted,

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