

September 6, 2019

Submitted Electronically (to pubcom@finra.org)

Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, D.C. 20006

Re: Request for Comment on a Proposal to Publish ATS Volume Data for Corporate Bonds and Agency Debt Securities on FINRA's Website (Regulatory Notice 19-22)

Dear Ms. Mitchell:

MarketAxess Holdings Inc. ("MarketAxess") appreciates the opportunity to comment on FINRA's recent proposal (the "Proposal") to publish volume and trade count information for corporate and agency debt securities, categorized by CUSIP and Alternative Trading System ("ATS"). MarketAxess has always supported greater transparency in fixed income markets, provided that such increased transparency is itself not harmful to liquidity in the market and it is applied in a fair and reasonable way. However, as discussed in more detail below, we believe that the Proposal as currently structured: (i) fails to recognize the unique market structure of the OTC fixed income market with respect to sources of liquidity; (ii) unfairly focuses on ATS trades relative to other venues and liquidity providers and (iii) will not provide useful information to help dealers or their customers assess where liquidity is concentrated.

I. Background

MarketAxess operates the leading, institutional electronic trading platform for corporate bonds. Through its registered broker-dealer, MarketAxess Corporation, and its global affiliates, more than 1,600 firms traded a record \$1.7 trillion of U.S. investment-grade bonds, U.S. high yield bonds, emerging market debt, Eurobonds and other fixed income securities on the MarketAxess platform in 2018. MarketAxess operates Open Trading™, an all-to-all trading solution in the global credit markets.

All of the trade volume that is publicly reported as executed on the MarketAxess system is fully electronic. However, because request-for-quote ("RFQ") is the preferred institutional client protocol to achieve best execution, none of the more than 3.4 million trades completed on the MarketAxess platform in 2018 were executed on a registered ATS. As such, all of MarketAxess' trades and volume would be excluded from the data that would be published pursuant to the Proposal. The Proposal would also exclude the trading data from other significant electronic trading platforms, either because they are not registered ATSS or because they are not regulated at all. In 2018, corporate bond trades (including both investment grade and high-yield bonds) on all ATSS represented only 4.1% of the trade volume and 21.9% of the trade count reported to TRACE, while MarketAxess' trades alone represented 15.5% of trade volume and 17.4% of trade count. Given the large number of registered ATSS, it is fair to assume that none of them have more than a 1 ½% market share of reported FINRA TRACE volume.

The Fixed Income Market Structure Advisory Committee (“FIMSAC”) established by the SEC recently recognized that there are material differences with how electronic trading platforms for corporate and municipal bonds are regulated. These regulatory differences were driven, in part, by the adoption of Regulation ATS and the establishment of a class of ATSs that were deemed to furnish services commonly performed by registered stock exchanges. FIMSAC concluded that the “definition of an ATS in Regulation ATS, as well as significant aspects of the Regulation ATS ruleset, largely reflect the trading practices of the equity markets and not necessarily those of the fixed income markets.”¹ FIMSAC further reasoned that the distinctions in regulatory oversight complicate efforts to improve the efficiency and resiliency of the fixed income electronic trading markets. On July 16, 2018, FIMSAC approved a recommendation that, among other things, recommends that the SEC, FINRA and MSRB jointly review the regulatory framework for the oversight of the of electronic trading platforms used in the corporate and municipal bond markets to (i) consider whether Regulation ATS (and any other applicable rules) should be amended to account for differences in protocols and market structures commonly used to trade fixed income as compared to equities and (ii) to ensure that regulation is not unfairly promoting or impeding specific trading protocols and business models over others.²

II. The Proposal Unfairly Focuses on ATS Trades Relative to other Electronic-Trading Venues and Liquidity Providers

MarketAxess believes the Proposal attempts to apply an equity market concept to the OTC fixed income market by focusing on ATS volume data. One of the primary purposes of the original rule change that required the publishing of individual ATS volume information for equity securities was to make it possible for the public to reliably assess the volume of executions in particular stocks on individual ATSs.³ Due to the fragmentation in the equities market, the rule change was aimed at disclosing the various alternative liquidity pools that had become available to investors. It was also an attempt to balance the requirements of exchanges and ATSs because of the growing size of the ATS markets at the time.

As described above, the ATS market for corporate and agency bonds is relatively small and the same dealers tend to provide liquidity to participants on each of the leading ATSs. Given that the largest source of liquidity in the fixed income market continues to come from the large dealer community⁴, MarketAxess believes that the Proposal, as drafted, does not make sense at this point in the evolution of the fixed income markets.

¹ See “Recommendation for the SEC to Review the Framework for the Oversight of Electronic Trading Platforms for Corporate and Municipal Bonds” dated July 16, 2018 by the SEC Fixed Income Market Structure Advisory Committee (the “FIMSAC Recommendation”)

² See FIMSAC Recommendation.

³ See SEC Release No. 34-706676; File No. SR-FINRA-2013-042, fn. 14.

⁴ Although MarketAxess’ Open Trading is the leading all-to-all trading solution in the global credit markets, it represented only 4.6% of TRACE investment grade volumes in the first half of 2019. MarketAxess’ Open Trading™ marketplace is “all-to-all”, permitting buy-side firms to trade with other buy-side firms without the participation of a dealer if there is reciprocal trading interest. Dealers and alternative liquidity providers are also significant users of Open Trading.

The focus on ATS volume data, to the exclusion of other venues and liquidity providers, also furthers the regulatory differences that were at the heart of the FIMSAC recommendation. MarketAxess believes it would be prudent to await the results of the SEC's review regarding the regulatory framework for oversight of electronic trading platforms used in the corporate and municipal bond markets before increasing the differences in regulation between the various types of fixed income platforms.

The Regulatory Notice (19-22) recognizes that there are other significant fixed income electronic trading platforms that are not ATSs and specifically seeks comment on whether FINRA should broaden the scope of the publication initiative to include these other platforms. MarketAxess believes that expanding the initiative to a broader group of platforms should not occur until there is first a level regulatory playing field. In addition, unless there is a consistent and fair framework to capture and report all "fully electronic trades" in the market, the published volume data will provide investors with statistics of an arbitrary slice of the OTC market. For example, as noted in the Notice of Rule Filing for the publishing of volume data for equity ATSs, volume data could just as easily include "broker-dealer internalized executions, trades executed in the over-the-counter market by wholesale market makers trading with order entry brokers, and executions on broker crossing systems that have not filed a Form ATS with the Commission".⁵

III. The Proposal Will Not Provide Useful Information to Help Investors Locate Liquidity

MarketAxess believes that the ATS volume and trade count information will not help broker-dealers and their customers assess where liquidity is concentrated. As discussed above, unlike the equity markets, the largest source of liquidity in the fixed income market is the large dealer community.⁶ Given that each of the largest dealers provides liquidity to participants on each of the leading ATSs, the ATS data will largely reflect customer preference for a particular ATS rather than unique pools of liquidity.

In addition, customers are not able to access all ATSs for which data is proposed to be published. As a result, approximately 96% of the FINRA reported ATS volume in corporate bonds is reported as a dealer-to-dealer transaction. This calls into question the end customer (retail or institutional) benefit of more granular reporting of ATS volume by venue. MarketAxess believes that publishing volume data will be more valuable to market participants if it is indicative of liquidity that is broadly accessible by all market participants. Otherwise, the volume data risks misleading customers who do not currently have a full picture on trading volumes in the corporate bond electronic trading space.

Further complicating the usefulness of the data is the fact that each ATS operates on a different trading model. For example, several ATSs operate a disclosed trading model, whereby the customer must have a documented relationship with a dealer before the customer can trade with such dealer. In this case, highlighting that trade volume had been significant in a particular bond of interest at a particular fixed income ATS would be frustrating to a client that does not have a relationship with the particular dealer that was the source of such volumes.⁷

⁵ See Securities Exchange Act Release No. 70676 (October 11, 2013), 78 FR 62862 (October 22, 2013) (Notice of Filing of File No. SR-FINRA-2013-042).

⁶ According to Greenwich Associates 2018 U.S. Fixed Income Investors Study, 56% of buy-side volume in U.S. investment grade corporate bonds is done with the 5 largest dealers.

⁷ATSs also execute trades pursuant to different trading protocols. MarketAxess believes that a number of trades reported as ATS trades are actually executed via protocols, such as RFQ, that would not generally qualify as an ATS.

IV. Conclusion

MarketAxess applauds FINRA for trying to increase transparency in the fixed income markets. However, MarketAxess believes that the Proposal simply does not make sense given today's inconsistent and fragmented regulatory framework for fixed income electronic trading venues. Given that ATS volumes represent only a small slice of the corporate bond market (overall and electronic), the further granularity provided by the Proposal risks misleading customers who do not understand the disparate regulatory regimes applied to fixed income electronic trading platforms. While ATSs are currently identifiable in TRACE by a unique identifier, we do not believe the ease of regulating ATSs should be the basis for increasing the seemingly arbitrary regulatory distinctions between ATSs, platforms regulated as broker-dealers and similar platforms that are not regulated at all. As stated above, MarketAxess believes it would make more sense to revisit the Proposal when there a consistent and fair framework in place that captures all "fully electronic trades" for fixed income securities, rather than relying on the current equities-oriented ATS construction.

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MarketAxess appreciates the opportunity to provide feedback to FINRA on the Regulatory Notice. We would be pleased to provide any further information and respond to any questions you may have.

Sincerely,



Scott Pintoff
General Counsel