

# Managed Funds Association

The Voice of the Global Alternative Investment Industry

Washington, D.C. | New York



February 22, 2021

**Via Electronic Mail:** [pubcom@finra.org](mailto:pubcom@finra.org)

Jennifer Piorko Mitchell  
Office of the Corporate Secretary  
FINRA  
1735 K Street, NW  
Washington, DC 20006-1500

**Re: Regulatory Notice 20-43; Enhancements to TRACE Reporting for U.S. Treasury Securities**

Dear Ms. Mitchell:

Managed Funds Association<sup>1</sup> (“MFA”) appreciates the opportunity to submit comments in response to FINRA’s request for comment on proposed enhancements to the information reported in FINRA’s TRACE reporting for U.S. Treasury Securities (the “**Proposal**”).<sup>2</sup> We are pleased to see that the proposed reporting enhancements, based on recommendations from the Treasury Department, are designed to improve the quality of the data available, thereby making it more useful for regulatory purposes. We support this general objective and urge FINRA to go further in requiring market participants to report Treasury market transactions within 15 minutes. We are of the view that higher quality data will improve regulators’ oversight of the Treasury markets and allow regulators to better understand market events in as close to real-time as possible.

## **I. MFA Supports Enhancements to TRACE Treasury Reporting**

MFA supports efforts to improve the quality of TRACE Treasury data reporting. Specifically, we believe that shortening the trade reporting timeframe<sup>3</sup> and adding a clearing arrangement indicator to mark the method by which a transaction is cleared<sup>4</sup> will enhance regulators’ understanding of the Treasury markets and move towards harmonizing the data regime on Treasuries with other fixed income markets.

FINRA began receiving TRACE Treasury data in 2017, and it has already proven to be a valuable source of information. TRACE data has helped improve regulators’ and the public’s understanding of Treasury

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<sup>1</sup> Managed Funds Association (“MFA”) represents the global alternative investment industry and its investors by advocating for public policies that foster efficient, transparent, fair capital markets, and competitive tax and regulatory structures. MFA supports member business strategy and growth via proprietary access to subject matter experts, peer-to-peer networking, and best practices. MFA’s more than 140 member firms collectively manage nearly \$1.6 trillion across a diverse group of investment strategies. Member firms help pension plans, university endowments, charitable foundations, and other institutional investors to diversify their investments, manage risk, and generate attractive returns over time. MFA has a global presence and is active in Washington, London, Brussels, and Asia, supporting a global policy environment that fosters growth in the alternative investment industry.

<sup>2</sup> See FINRA Regulatory Notice 20-43, (December 23, 2020), <https://www.finra.org/sites/default/files/2020-12/Regulatory-Notice-20-43.pdf>.

<sup>3</sup> See *id.* at p. 4.

<sup>4</sup> See *id.* at p. 6.

market structure<sup>5</sup> and trading in Treasury markets.<sup>6</sup> In particular, it was lauded by the Treasury department as being “a critically important resource” during the most acute stages of the COVID-19 induced market crisis in March of 2020.<sup>7</sup> However, regulators have consistently noted limitations in the data that could be addressed with the reporting enhancements in the Proposal.<sup>8</sup>

MFA believes it is important to shorten the delay in TRACE reporting. In fact, FINRA should mandate that transactions be reported within fifteen minutes. Corporate bonds must be reported within fifteen minutes and regulators should have the same timely data with respect to the Treasury markets. Timely data is critical for regulators to perform their supervisory functions, especially in times of extreme market volatility. MFA would welcome the opportunity to comment on potential further use of the data, such as public dissemination, once the regulatory community has assessed the use of more timely data.

MFA also supports enhancing TRACE data by adding a clearing arrangement indicator to TRACE transaction reports. The benefits of central clearing are well documented, such as leading to greater market transparency, liquidity, and resiliency, and decreased credit and operational risks.<sup>9</sup> For a variety of reasons, central clearing for dealer-to-customer trading in the U.S. Treasury markets has not evolved. While clearing and operational risks related to bilateral clearing can be effectively managed, we believe it is important for regulators and the industry to work together to develop an effective dealer-to-customer clearing model for both cash and repo transactions. Adding a clearing indicator to TRACE reporting would also facilitate monitoring the development of various clearing arrangements in the market.

## II. Federal Reserve Should Authorize Bank TRACE Data Collection

MFA supports the Federal Reserve’s parallel effort to bring banks into the TRACE Treasury reporting system. Currently only FINRA member firms report Treasury market activity to TRACE. Federal Reserve officials have repeatedly raised the prospects of requiring the banks they supervise to report as well.<sup>10</sup> Currently, the Federal Reserve has a Request for Comment on the implementation of this proposal.<sup>11</sup> MFA

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<sup>5</sup> Brainard, Lael, “The Structure of the Treasury Market: What Are We Learning?” (“Lael Brainard Speech”), The Evolving Structure of the U.S. Treasury Market Conference, 3 December 2018, <https://www.federalreserve.gov/newsevents/speech/brainard20181203a.htm>. “FINRA’s collections are limited only to its members. The Federal Reserve is close to finalizing an agreement with FINRA to act as our agent in expanding the collection of Treasury transactions to key banks that are also active in this market.”

<sup>6</sup> See Brain, Doug, et al. “Breaking Down TRACE Volumes Further.” Liberty Street Economics, 29 Nov. 2018., <https://libertystreeteconomics.newyorkfed.org/2018/11/breaking-down-trace-volumes-further.html>.

<sup>7</sup> Muzinich, Justin, “Remarks of Deputy Secretary Justin Muzinich at the 2020 U.S. Treasury Market Conference.”, 29 September 2020, <https://home.treasury.gov/news/press-releases/sm1138>.

<sup>8</sup> See *id.*

<sup>9</sup> See Liang, Nellie and Pat Parkinson, “Enhancing Liquidity of the U.S. Treasury Market Under Stress.” Hutchins Center Working Paper #72, 16 December 2020, [https://www.brookings.edu/wp-content/uploads/2020/12/WP72\\_Liang-Parkinson.pdf](https://www.brookings.edu/wp-content/uploads/2020/12/WP72_Liang-Parkinson.pdf).

<sup>10</sup> Lael Brainard Speech, *supra* n. 5. As far back as December 2018, Federal Reserve Governor Brainard noted “FINRA’s collections are limited only to its members. The Federal Reserve is close to finalizing an agreement with FINRA to act as our agent in expanding the collection of Treasury transactions to key banks that are also active in this market.”

<sup>11</sup> See 86 Fed. Reg. 6329 (January 21, 2021), <https://www.federalreserve.gov/boarddocs/press/foiadocs/2021/20210121/foia20210121.pdf>.

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believes that requiring depository institutions to report Treasury market transactions into TRACE, coupled with the Proposal, would further improve the reliability of the data for both regulatory and public dissemination purposes. Otherwise, regulators will be relying on incomplete market data as they oversee the Treasury markets and try to analyze market events.

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MFA would be pleased to discuss further the Proposal and the issues raised in this letter with FINRA staff. Please do not hesitate to contact me at (202) 730-2600.

Respectfully submitted,

/s/ Jennifer W. Han

Jennifer W. Han

Chief Counsel & Head of Regulatory Affairs

CC: Bob Colby, Chief Legal Officer, FINRA