

FINANCIAL INFORMATION FORUM

March 19, 2021

By electronic mail to regs.comments@federalreserve.gov

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Proposed Agency Information Collection Activities; Comment Request – OMB No. 7100–NEW

Dear Ms. Misback,

The Financial Information Forum (FIF)¹ appreciates the opportunity to comment on the proposal by the Board of Governors of the Federal Reserve System to implement Treasury Securities and Agency Debt and Mortgage-Backed Securities Reporting Requirements for certain depository institutions (referred to in this letter as the “Federal Reserve Proposal” or the “Proposal”).²

The Federal Reserve has published various other documents relating to the Proposal, including:

- Supporting Statement for the Treasury Securities and Agency Debt and Mortgage-Backed Securities Reporting Requirements (FR 2956; OMB No. 7100-NEW)³
- Draft Transaction Data File Fields To Be Reported.⁴

In the Proposal, the Federal Reserve proposes to require certain depository institutions to report all the transaction details, information, and fields as described in the applicable Trade Reporting and Compliance Engine (TRACE) technical documentation, FAQs and guides located at <https://www.finra.org/filing-reporting/trace/documentation>.² The Federal Reserve describes the categories of depository institutions that would become subject to TRACE reporting:

¹ FIF (www.fif.com) was formed in 1996 to provide a centralized source of information on the implementation issues that impact the securities industry across the order lifecycle. Our participants include trading and back office service bureaus, broker-dealers, market data vendors and exchanges. Through topic-oriented working groups, FIF participants focus on critical issues and productive solutions to technology developments, regulatory initiatives, and other industry changes.

² Proposed Agency Information Collection Activities; Comment Request, 85 Fed. Reg. 6329 (January 21, 2021), available at <https://www.govinfo.gov/content/pkg/FR-2021-01-21/pdf/2021-01217.pdf>.

³ Available at [FR 2956 OMB SS.pdf \(federalreserve.gov\)](https://www.federalreserve.gov/FR2956OMBSS.pdf) (“Supporting Statement”).

⁴ Available at [FR 2956 Transaction Data File Fields To Be Reported.pdf \(federalreserve.gov\)](https://www.federalreserve.gov/FR2956TransactionDataFileFieldsToBeReported.pdf). Also see [FRB: Report Forms, Information collections under review \(federalreserve.gov\)](https://www.federalreserve.gov/FRBReportFormsInformationCollectionsUnderReview.pdf), which provides links to these documents.

“Every national bank, state member bank, state non-member bank, savings association, or U.S. branch and agency of a foreign bank filing a Notice of Government Securities Broker or Government Dealer Activities Form (Form G–FIN; OMB No. 7100–0224) with average daily transaction volumes of over \$100 million, for U.S. Treasury debt, or over \$50 million, for agency issued debt and MBS, during the prior fiscal year would be subject to the proposed reporting requirements.”

Impact on broker-dealers that currently report to TRACE

FIF members request guidance on the impact that the Federal Reserve Proposal will have on broker-dealers that currently report U.S. Treasury and Agency trades to TRACE.

Presumably, a broker-dealer would need to know whether its counter-party is a depository institution subject to TRACE reporting as it would then be necessary for the broker-dealer to report a Market Participant Contra Party ID (CPID) for the depository institution. Is this correct? If so, will the Financial Industry Regulatory Authority (FINRA) assign Market Participant IDs (MPIDs) or other identifiers to the depository institutions that become subject to TRACE reporting? Will FINRA conduct validations and generate rejections and unmatcheds based on TRACE reports submitted by broker-dealers not matching with reports submitted by these depository institutions? Will give-up and locked-in arrangements apply for these depository institutions? Will these depository institutions be eligible to enter into Uniform Service Agreements with broker-dealers and other depository institutions?

How would a broker-dealer know whether its counter-party is a depository institution subject to TRACE reporting? FIF members recommend that FINRA provide an electronic list, in a structured data format, of all depository institutions that will be subject to TRACE reporting. Broker-dealers also will need to establish contact with TRACE reporting personnel at these depository institutions. Accordingly, it will be helpful to have a directory with contact information for the TRACE reporting unit at each depository institution.

FINRA Regulatory Notice 18-34 requires large alternative trading systems (ATSS) reporting transactions in US Treasury securities to TRACE to identify non-FINRA members as counterparties and include them in the counterparty field in their TRACE reports.⁵ This rule, which took effect on April 1, 2019, requires large ATSS to identify their customers to FINRA. FINRA assigns MPIDs to these customers, and the large ATSS include these MPIDs in their TRACE reports. The regulators should consider the potential impact of the Federal Reserve Proposal on the large ATS reporting process and vice versa. As an example, if FINRA has previously assigned an MPID to a depository institution that becomes subject to TRACE reporting as a result of the Federal Reserve Proposal, would the depository institution be permitted to request and receive a different MPID and, if so, how would this be communicated to existing large ATSS?

⁵ FINRA Regulatory Notice 18-34 (April 1, 2019), available at https://www.finra.org/sites/default/files/notice_doc_file_ref/Regulatory-Notice-18-34.pdf.

Impact on depository institutions that become subject to TRACE reporting

FIF members also request further guidance on how the Federal Reserve Proposal will impact depository institutions, including those that are broker-dealer affiliates.

If a depository institution is subject to TRACE reporting, does this mean that all trading activity by the depository institution is subject to TRACE reporting, even where the depository institution is not acting in a dealer capacity? In particular, would the following types of trading activity by a depository institution be subject to TRACE reporting: dealing activity with clients inside and outside of the US; dealing with foreign affiliates; dealing with US broker-dealers, including inter-dealer brokers; dealing on electronic trading platforms; dealing with non-US counterparties; acting as agent for foreign branches of the bank; transactions booked in US branches, foreign branches, and the head office of the foreign banks; hedging activity; and activity currently captured by TIC Form S?

Additional requests for clarification

FIF members also request guidance on whether a “separately identifiable department or division” of a bank as defined in Section 2(a)(26) of the Investment Advisers Act of 1940 would be subject to TRACE reporting.⁶

The Supporting Statement provides that “the data received from this information collection would be included in the various TRACE data products available to market participants, such as data feeds, end-of-day TRACE transaction file, TRACE enhanced historical data, market aggregate statistics, and TRACE Fact Book.”⁷ FIF members request confirmation that this would not result in public dissemination of Treasury trades.

FIF members request clarification that the proposed changes would not impact current trade settlement processes for Treasuries and agency securities.

Implementation of the Federal Reserve Proposal in light of FINRA Regulatory Notice 20-43

In December 2020, FINRA published a Regulatory Notice requesting comments on possible changes to TRACE reporting for U.S. Treasury securities (FINRA Regulatory Notice 20-43).⁸ To the extent that the Federal Reserve requires depository institutions to report transactions to TRACE, any expanded data collection described in FINRA Regulatory Notice 20-43, subject to filing with and approval by the Securities and Exchange Commission, presumably also would apply to depository institutions that become subject to TRACE reporting as a result of the Federal Reserve Proposal. FIF members request clarification on the expected implementation timing of any FINRA and Federal Reserve rule changes in relation to each other and if and how the Federal Reserve Proposal to expand TRACE reporting to certain depository institutions would impact the changes described in the FINRA Regulatory Notice.

⁶ 15 U.S.C. §80b-2(a)(26).

⁷ Supporting Statement, at p. 8.

⁸ FINRA Regulatory Notice 20-43 (December 23, 2020), available at <https://www.finra.org/sites/default/files/2020-12/Regulatory-Notice-20-43.pdf>.

As an example, in the Supporting Statement, the general required timeframe for reporting Treasury transactions to TRACE is the close of the TRACE reporting system at 6:30 pm (ET). In the FINRA Regulatory Notice, FINRA is considering reducing the time period for reporting to require reporting generally within one hour after trade execution. It is important to coordinate implementation of any changes resulting from the Federal Reserve Proposal and the FINRA Regulatory Notice to ensure that all reporting parties are subject to the same reporting timeframes. This is necessary to facilitate timely resolution of reporting unmatcheds.

As a second example, in its Regulatory Notice FINRA is considering various new TRACE reporting requirements for U.S. Treasury securities, such as a proposal to require reporting of desk identifiers. Presumably, these new reporting requirements would apply to depository institutions that become subject to TRACE reporting as a result of the Federal Reserve Proposal.

Cost estimation

In estimating the costs for the Federal Reserve Proposal, costs to broker-dealers to establish reporting relationships with new TRACE reporters and identify and resolve reporting mismatches going forward, along with any associated Technology and Operations costs, should be taken into account.

FIF appreciates the opportunity to comment on the proposal by the Board of Governors of the Federal Reserve System to implement Treasury Securities and Agency Debt and Mortgage-Backed Securities Reporting Requirements for certain depository institutions. If you would like clarification on any of the items discussed in this letter or would like to discuss further, please contact me at howard.meyerson@fif.com.

Very truly yours,

/s/ Howard Meyerson

Howard Meyerson
Managing Director, Financial Information Forum