THOMSON REUTERS

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Via: pubcom@finra.org
msrb.org/CommentForm

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

Mr. Ronald W. Smith
Corporate Secretary
Municipal Securities Rulemaking Board
1900 Duke Street
Suite 600
Alexandria, VA 22314

Re: Response to the Requests for Comment from FINRA and the MSRB on Proposed Rules to Require Confirmation Disclosure of Pricing Information in Fixed Income Securities Transactions (Regulatory Notices 14-52 and 2014-20).

Dear Ms. Asquith and Mr. Smith:

Thomson Reuters appreciates the opportunity to comment on the rule proposal by the Financial Industry Regulatory Authority ("FINRA") outlined in Regulatory Notice 14-52, which would require member firms to disclose the price to the member, the price to the customer and the difference between the two prices on customer confirmations for a subset of retail fixed income transactions. Through BETA Systems, Thomson Reuters[1] offers a complete suite of products that enable retail and institutional brokers to manage the daily tasks of their front, middle and back office operations. With more than 30 years of industry knowledge and hands-on experience, Thomson Reuters partner with some nineteen clearing firms and over 300 introducing broker-dealers to address their unique business and regulatory requirements.

Thomson Reuters believes this approach presents a significant amount of processing change and may not accurately reflect transaction details to investors. FINRA has presented a method for providing same-day pricing disclosures, which could be achieved in back office processing with significant code and processing changes. However, as a Service Provider, Thomson Reuters is concerned that a batch process will match trades by defined business rules, which could result in the pricing disclosure being irrelevant to the actual transactions. We illustrate our concerns through examples provided in the following section. We recommend that FINRA consider a process in which the pricing disclosure is actually related to the security transaction "at the time "of the transaction – the current standard in FINRA Rule 2121 and MSRB Rule G-30, which requires broker-dealers to take into consideration circumstances related "at the

[1] Thomson Reuters is the world's leading source of intelligent information for businesses and professionals. Combining industry expertise with innovative technology, it delivers critical information to leading decision makers in the financial and risk, legal, tax and accounting, intellectual property and science and media markets powered by the world's most trusted news organization. Headquartered in New York it employs approximately 57,800 people around the world and operates in over 100 countries. For more information about Thomson Reuters, please go to www.thomsonreuters.com. For more information about BETA Systems, please go to www.thomsonreuters.com/beta-systems.

time" of transaction for fair prices and commissions. We believe EMMA and TRACE provides this information, since it is near real time. Firms could provide customers information related to their execution upon request, including detailing the price defined by a standard method or a fair market estimate. This would provide the needed customer disclosure and information and reduce the potential of making non relevant data as relevant. This is also similar to the Best Execution and Order Routing disclosures requirements.

Thomson Reuters details concerns below, and offers comments responsive to specific questions posed in Regulatory Notices 14-52 and 2014-20.

The Operational Complexities of the Proposals will Result in Reporting Information to Investors that is not Relevant to Their Transactions

Proposed revisions to FINRA Rule 2232 and MSRB Rule G-15 would require broker-dealers to disclose the price to the member, the price to the customer and price differential for transactions of qualifying size, when the member acts as principal on the same trading day in an amount that would meet or exceed the size of the customer transaction. Given the proposed scope of the amendments, Thomson Reuters is particularly concerned about three aspects from an operational and technical standpoint.

Determining what retail transactions qualify for the disclosure and what price to disclose as the broker-dealers price will be operationally complex and technically challenging. First, a broker-dealers's streetside executions and retail customer transactions are not related or aggregated systematically throughout the trading, meaning firms will have to build complex logic to compare all activity in dealer inventory and customer accounts in a particular security at the end of a trading day to determine whether the firm's dealer activity exceeded the aggregate customer activity in that security. Determining the appropriate member's price will be equally challenging because firms and service providers will have to develop functionality to evaluate the dealer and customer activity at the end of the trading day to determine which member price methodology is required (i.e. weighted average price, LIFO, closest in time proximity). This functionality will require a complicated tax lot-like system to link specific dealer activity and member price with customer activity for confirm reporting purposes, and account for the timing and amount of activity across multiple accounts and systems.

It was valuable that FINRA provided 13 examples in the regulatory notice, which the MSRB referenced in their Notice. However, these examples did not take into account the complexity associated with transaction processing. Generally a firm utilizes multiple order management systems and has several proprietary trading accounts, and their customers could be executing multiple transactions in the same fixed income securities, which will complicate the matching process and we believe this could result in irrelevant prices being legitimatized as the price the firm purchased or sold the security

Thomson Reuters offers the following examples to illustrate more complex trading scenarios that would require complicated matching logic in order to comply with the proposals:

Example 1:
10:00:00 AM Firm A, Trader 1 (INV Acct 1234), purchases 500 XYZ bonds from Dealer Y at $100 for $500,000
10:00:00 AM Firm A, Trader 2 (INV Acct 7890), purchases 50 XYZ bonds from Dealer Z at $102 for $51,000
10:00:15 AM Firm A, sells 30 XYZ bonds to Client A at $101.50 for $30,450

Example 2:
10:00:00 AM Firm A, Trader 1 (INV Acct 9876), purchases 100 XYZ bonds from Dealer Y at $100 for $100,000
10:00:00 AM Firm A, Trader 2 (INV Acct 1234), purchases 50 XYZ bonds from Dealer Z at $102 for $51,000
10:00:15 AM Firm A, sells 75 XYZ bonds to Client A at a price of $101.50 for $76,125
10:00:15 AM Firm A, sells 30 XYZ bonds to Client B at a price of $101.50 for $30,450

Example 3:
09:30:00 AM Firm A, Trader 1 (INV Acct 2345), purchases 100 XYZ bonds from Dealer Y at $99 for $99,000
10:00:00 AM Firm A, Trader 2 (INV Acct 9876), purchases 50 XYZ bonds from Dealer Z at $102 for $51,000
10:00:00 AM Firm A, sells 80 XYZ bonds (INV Acct 2345) to Client A at a price of $101.50 for $81,200
10:10:00 AM Firm A, Trader 3 (INV Acct 4567), purchases 100 XYZ bonds Dealer Z at $101 for $101,000
10:15:00 AM Firm A, Trader 1(INV Acct 6543), purchases 100 XYZ bonds from Institution X at $100 for $100,000
10:20:15 AM Firm A, sells 30 XYZ bonds (INV Acct 6543)) to Client A at $101.50 for $30,450
10:00:15 AM Firm A, sells 50 XYZ bonds (INV Acct 4567) to Client B at a price of $101.50 for $50,750

<u>The following illustrate instances in which the disclosure would be misleading or confusing to clients:</u>

Example 4: Closest in Time Proximity Methodology
9:35:00 AM Firm A sells to Client A from existing inventory 50 XYZ bonds at $101 for $50,500
1:30:00 PM Negative news for XYZ
2:15:00 PM Firm A buys 100 bonds from Dealer Z at $93 for $93,000
2:30:00 PM Firm A sells to 50 XYZ bonds to Client B at $95 for $47,500

- Client A would receive a confirm reflecting dealer price of $93, a customer price of $101 and a price differential of 8.
- Client B would receive a confirm with a dealer price of $93, a customer price of $95, and a price differential of 2.

Example 5: Last In-FirstOut Methodology
10:00:00 AM Firm A buys 100 XYZ bonds at $99 for $99,000
10:15:00 AM Firm A sells to Client A 25 XYZ bonds at $101 for $25,250
10:18:00 AM Firm A sells to Client B 25 bonds at $101 for $25,250
1:00:00 PM Negative News for Company XYZ
1:15:00 PM Firm A buys 50 XYZ bonds at $92 for $46,000
2:00:00 PM Firm A sells to Client C 50 XYZ bonds at $94 for $47,000

- Client A and Client B will receive confirms disclosing dealer price of $92, customer price of 101, with price differential of 9 (prevailing market price and contemporaneous cost was $99 at time of customer transactions).

- Client C will receive confirm disclosing dealer price of $92, customer price of $94, with price differential of 2.

Example 6: Weighted Average Price Methodology
10:00:00 AM Firm A buys 75 XYZ bonds at $98 for $73,500.
10:45:00 AM Firm A sells 75 XYZ bonds to Client A at $101 for $75,750
1:00:00 PM Negative news for XYZ
1:30:00 Firm A buys 75 XYZ bonds at $92 for $92,000
1:45:00 Firm A sells 75 XYZ bonds to Client B at $94 for $70,500

- Client A receives confirm disclosing a weighted average price of 95, customer price of 101, and price differential of 6.
- Client B receives confirm disclosing a weighted average price of 95, customer price of $94, and a markup of -1.

Example 7: Different confirms for same transaction
Day 1 – 10:00:00 AM Firm A purchases100 XYZ bonds at $99 for $99,000.
Day 1 – 11:30:00 AM Firm A sells Client A 50 XYZ bonds at $101 for $50,500
Day 2 – 2:00:00 PM Firm A sells Client A 50 XYZ bonds at $101 for $50,500

- Client A receives a confirm for Day 1 reflecting dealer price of $99 (LIFO), customer price of $101 and markup of 2.
- Client A receives a confirm for Day 2 reflecting customer price of $101 (even though transactions are identical, client receives different confirmations).

Example 8: Trade Corrections
Day 1 – 10:00:00 AM Firm A purchases 75 XYZ bonds from Dealer X at $97 for $72,750
Day 1 – 10:30:00 AM Firm A purchases 75 XYZ bonds from Dealer Z at $100 for $75,000
Day 1 – 11:00:00 Am Firm A sells 75 XYZ bonds to Client A at $100 for $75,000.
Day 1 – 2:00:00 PM Firm A sells 50 XYZ bonds to Client B at $101.50 for $50,750

- Client A receives a confirm reflecting dealer price of $100 (LIFO), customer price of $100 and price differential of 0.
- Client B receives a confirm reflecting dealer price of $100 (LIFO), customer price of $101.50, and differential of 1.5.

Day 2 – 9:00:00 AM Registered Rep makes trade correction for Client B, increasing quantity from 50 to 75 XYZ bonds.

- Trade correction would cause Day 1 Firm activity to equal customer activity, which would require firm to use the average price methodology. ***Would Firm A be required to issue a new confirm to Client B reflecting a dealer price of:***
    - $100 based on calculation used the prior day; or
    - $98.50 based on weighted average price?
- ***Would Client A have to be issued a corrected confirm if Firm is required to report $98.50 as dealer price?***

Given these examples Thomson Reuters foresees additional processing logic that was not considered in the Regulatory Notices, and anticipates identifying additional challenges as analysis continues. Thomson Reuters believes the industry and regulators need to thoroughly evaluate all the potential scenarios to fully understand the complexity of reporting pricing disclosures and the accuracy of the disclosures under each scenario. As discussed above, automated processes are based on defined business rules which must account for unique events and complexities. Automated processes would facilitate processing client disclosures but at the expense of causing misleading price comparisons and legitimizing information that is irrelevant to the client's transaction. Importantly, Registered Representatives will not be able to disclose the actual markup to the client at the time of the transaction because the actual dealer price that will be the basis of the disclosure will not be calculated until the automated processes run after market close.

To reduce operational complexity and implementation costs, and allow firms to tailor their disclosure practices to their business models and technology infrastructure, FINRA and the MSRB should adopt a consistent and workable standard that:

- Allows firms to provide their retail customers fair and accurate price disclosure ;
- Determines dealer price using one consistently applied standard, rather than having to consider timing of activity and the extent to which dealer activity meets or exceeds customer activity;

Finally, service providers and print vendors, working with member firms will have to analyze existing confirm file layouts to ensure that information can be properly passed without causing unintended consequences downstream. As more fully detailed below, FINRA and the MSRB should consider alternatives to mitigate this risk and complexity by leveraging data that is already reported to TRACE or RTRS.

Regulatory Coordination

Thomson Reuters appreciates the manner in which FINRA and the MSRB have coordinated thus far on their respective confirm disclosure proposals, and stresses that the rules should diverge only to the extent necessary to account for differences between the municipal and corporate/agency markets. As a general matter, this type of coordination results in effective rulemaking, cost effective implementation for broker-dealers and regulators, and reduces implementation, technology and market risk. Thomson Reuters encourages FINRA and the MSRB to continue working with other regulators to address common regulatory concerns.

Thomson Reuters would also like to stress that FINRA and the MSRB should consider ways to consolidate rulemakings and implementation that impact common products, systems or processes. For instance, FINRA has released several proposals that impact various aspects of TRACE reporting and other proposals to increase market transparency. [2] Similarly, the MSRB has proposed transparency initiatives, along with its Long Range Plan for Market Transparency.[3] As FINRA and the MSRB consider the revisions proposed in Notices 14-52 and 2014-20, a critical objective should be to align

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[2] Regulatory Notice 14-53 (Trade Obligations in TRACE-Eligible Securities); SR-FINRA-2014-050 (requiring a non-member affiliate indicator); and FINRA's announced proposal to require an indicator when a transaction does not reflect a commission or markup.

[3] Regulatory Notices 2014-14 (Enhancements to Post-Trade Transaction Data Disseminated Through a New Central Transparency Platform) and 2013-14 (Concept Release on Pre-Trade and Post-Trade Pricing Data Dissemination through a New Central Transparency Platform); Long-Range Plan for Market Transparency Products (http://www.msrb.org/msrb1/pdfs/Long-Range-Plan.pdf).

implementation with other fixed income and market transparency initiatives. Consolidating related rulemakings in this way is more efficient for regulators and broker-dealers, and with this efficiency, broker-dealers can continue to invest in products, services and technologies that further benefit investors.

Assessment of Costs and Benefits – Economic Impact Analysis

Thomson Reuters believes that the costs and time to implement the proposed rule will be a significant undertaking, given it requires integration between multiple systems, new tax- lot like accounting application for matching trades and billing purposes and multiple changes downstream for processing, which will ultimately increase processing time for these transactions. As a point of comparison, the S.E.C. estimated in the 2010 proposal related to mutual fund disclosures that the one-time costs for broker-dealers to modify confirms was approximately $1.1 million (or aggregate cost of $180.7 million)..

Broker-dealers, FINRA and the MSRB have invested millions of dollars over the last several years in TRACE and RTRS reporting to capture additional detail for dealer and customer activity in fixed income securities. Thus, FINRA and the MSRB should work with the industry to enhance the existing TRACE Market Data and EMMA websites, which already aggregate and make publicly available significant amounts of trade related and pricing information. Moreover, as FINRA and the MSRB move forward with their market transparency initiatives, they will be in possession of more data which could be beneficial to investors if disclosed publicly. Leveraging the existing transaction repositories allows for consistency in disclosure, reduces burdens on investors by bringing the information together in two primary sources, and will arguably be of greater benefit to more investors by showing transaction costs and other reference information that investors will find useful. Broker-dealers could include links to the FINRA and MSRB facilities to further reduce the burden on investors. These alternatives must be considered before requiring broker-dealers to incur the significant costs of disclosures, which would only disclose a price based on a business rule, not a true indicator of the actual event (price).

Response to Specific "Request for Comment"

Thomson Reuters offers comments to the following questions raised in Regulatory Notices 14-52 and 2014-20:

MSRB and FINRA Question 2. What kinds of costs would this requirement impose on firms, including the anticipated costs to firms in developing and implementing systems to comply with the proposal?

Response: Thomson Reuters anticipates that firms and service providers would incur costs in four distinct areas. Firms and service providers will have to engage technical resources to develop functionality to comply with identification and reporting requirements. Additionally, modifications will have to be made confirm programming and layouts. Technical and subject matter experts will also have to coordinate internal technical changes with print vendors and support end to end testing with other order management systems, service providers, and print vendors. Finally, firms will have to develop internal systems to ensure that they are able to adequately supervise and oversee the new requirements. An approach that aligns the FINRA and MSRB proposals to every extent possible will likely reduce implementation and maintenance costs.

MSRB Question 3. For what time period should the dealer's trades be disclosed? Is the same trading day standard appropriate in light of the objectives, costs and benefits of the proposal

Response: Requiring the disclosure on any activity which occurs in the same trading day makes the proposal overly complex and costly to implement. As the MSRB notes, "as the time period between trades increases, the degree to which the price of the reference transaction will be helpful to the customer may decrease." Instead, the rule should be based on the existing standard in MSRB Rule 30, which requires broker-dealers to take into consideration circumstances "at the time" of transaction for fair prices and commissions.

MSRB and FINRA Question 4. For which transactions should pricing disclosures be made?

Response: Requiring disclosure on any activity which occurs in the same trading day makes the proposal overly complex and costly to implement. FINRA should limit scope to retail activity with a definition based on existing account or customer demographics that dealers already capture as books and records requirements rather than trade size. For example, the rule could apply to accounts that do not qualify as an Institutional Account[4] under Rule 4512 or accounts of natural persons.[5]

MSRB and FINRA Question 5. Are there alternative forms of disclosure or methods to achieve the objectives of the proposal and are they better suited that the proposal?

Response: Before adopting the rule, FINRA and the MSRB should review the current investor protections under Rule 2121 and G-30 or enhance FINRA's Market Data and MSRB's EMMA websites to disclose more pricing information publicly and consolidating this with the other reference and market data that is already consolidated and disseminated by FINRA and the MSRB. By leveraging the existing Regulators' facilities, information can be disclosed in a common form accessible in two locations for corporate bonds, agencies and municipal securities.

FINRA Question 7. Should the concept of a "riskless principal" transaction be used in place of the proposed concept, and, if so, can "riskless principal" be defined in a manner that minimizes concerns that market participants would avoid the proposed disclosure requirements?

Response: While limiting scope to riskless principal activity may give the investor a more accurate representation of the costs to execute their particular transaction, Thomson Reuters is concerned that many operational challenges will persist, including the ability to accurately match riskless principal transactions real-time. Thomson Reuters does not believe that this will appreciably reduce the implementation cost or complexity for broker-dealers and service providers.

FINRA Question 9/MSRB Question 8. When a firm executes multiple municipal securities transactions as principal, what should be the appropriate methodology or methodologies to use in determining the reference transaction price and differential to be disclosed on the confirmation?

Response: Thomson Reuters believes strongly, as illustrated in the above examples that the proposed methodologies will result in misleading price comparisons and legitimize information that is irrelevant to the client's transaction. FINRA and the MSRB must consider an approach consistent with the "at the time of the transaction" standard of MSRB Rule G-30 and FINRA Rule 2121.

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[4] Since the FINRA definition of Institutional Account and the MSRB definition of sophisticated municipal market professional are the same, the rules could be harmonized in this respect.
[5] Natural person indicator will be a new requirement for broker-dealers under the S.E.C.'s money market fund reform and is a proposed requirement for FINRA's Comprehensive Automated Risk Data System.

FINRA Question 11. Are there other potential effects to markets and market participants of the proposal?

Response:, Thomson Reuters would not be in favor of a pilot program to test potential effects. Cost of implementation is the same without the same level of certainty in the long-term investment, and further strains resources dedicated to other significant regulatory initiatives.

Conclusion

Thomson Reuters believes that the proposed rule is overly complex, may not necessarily achieve FINRA's intended goal of providing greater cost transparency for investors and that the potential costs far outweigh the potential investor benefits. Before submitting the rule for approval, Thomson Reuters requests FINRA to consider a more effective alternative that may have greater benefit to investors. If FINRA determines that confirm disclosures are necessary, Thomson Reuters recommends that FINRA adopt a rule that allows for standardized and consistent application o the regulatory requirements and reduces the likelihood of providing investors with misleading information.

Thomson Reuters appreciates this opportunity to comment on the rule proposal and welcomes the opportunity to further participate in discussions with FINRA and other stakeholders about how to best achieve the proposal's policy goals.

Respectfully Yours,

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Thomson Reuters